

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| ELECTRONIC APPLICATION OF GARRISON-<br>QUINCY-KY-O-HEIGHTS WATER DISTRICT FOR<br>A RATE ADJUSTMENT PURSUANT TO 807 KAR<br>5:076 | )<br>)<br>)<br>)<br>) | CASE NO.<br>2021-00094 |
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ORDER

On March 2, 2021, Garrison-Quincy-Ky-O-Heights Water District (Garrison District) filed an application with the Commission requesting to adjust its water and sewer rates pursuant to 807 KAR 5:076. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 11, 2021. On June 16, 2021, the Commission, on its own motion, amended its March 11, 2021 Order to allow Staff until July 13, 2021, to review Garrison District’s case and to complete its report. Garrison District responded to four requests for information from Staff.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and to the utility ratepayers, The Commission’s standard of review of a utility’s request for a rate increase is well established. In accordance with KRS 278.030 and case law, Garrison District is allowed to charge its customers “only ‘fair, just and reasonable rates.’”<sup>1</sup> Further, Garrison

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<sup>1</sup> *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Pub. Serv. Comm’n v. Com. of Kentucky v. Dewit Water District*, 720 S.W.2d 725 (Ky. 1986).

District bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

### BACKGROUND

Garrison District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 1,019 residential customers, 39 commercial customers, one industrial customer and eight bulk-loading stations in Lewis County, Kentucky.<sup>2</sup> Garrison District's sewer division owns and operates sewage facilities in Lewis County, Kentucky, that serve approximately 286 residential customers and 18 commercial customers.<sup>3</sup>

In its application, Garrison District requested water rates that would increase annual revenues from water sales by \$96,267, or 18.53 percent. Garrison District also requested a Water Loss Reduction Surcharge of \$1.73 per customer per month to help lower system losses to more acceptable levels. The water rates requested by Garrison District would increase the monthly water bill of a typical residential customer using 3,000 gallons per month by \$5.28, from \$28.55 to \$33.83, or approximately 18.50 percent.<sup>4</sup>

Garrison District also determined that its sewer division could justify a revenue increase of \$132,411, or 88.33 percent.<sup>5</sup> However, Garrison District limited its request to

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<sup>2</sup> *Annual Report of Garrison Quincy-Ky-O-Heights Water District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2019* (2019 Water Division Annual Report) at 12 and 49.

<sup>3</sup> *Annual Report of Garrison Quincy-Ky-O-Heights Water District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2019* (2019 Sewer Division Annual Report) at 9 and 25.

<sup>4</sup> Application, Attachment 1, Customer Notice.

<sup>5</sup> *Id.*, Attachment 4, Revenue Requirements.

a 35.00 percent increase, or \$52,236 in additional sewer revenues.<sup>6</sup> Garrison District's proposed sewer rates would increase the monthly sewer bill of a typical residential customer using 3,000 gallons per month by \$11.55, from \$33.00 to \$44.55, or approximately 35.00 percent.<sup>7</sup>

On July 13, 2021, Commission Staff (Staff) issued its report (Staff Report) summarizing its findings. Staff found that Garrison District's adjusted test-year water operating revenues and expenses support an Overall Revenue Requirement of \$592,504.<sup>8</sup> In order to achieve Staff's Overall Revenue Requirement, the water division would require an annual increase in revenue from water rates of \$22,004, or 4.24 percent.<sup>9</sup> Staff also recommended the Commission approve Garrison District's requested water loss surcharge of \$1.73 per active meter but limit the surcharge collection to 48 months.<sup>10</sup>

In its July 13, 2021 Staff Report, Staff found that Garrison District's adjusted test-year sewer operating revenues and expenses support an Overall Revenue Requirement of \$336,156.<sup>11</sup> To achieve Staff's Overall Revenue Requirement, Garrison District would

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<sup>6</sup> *Id.*, Attachment 5, Current Billing Analysis - 2019 Usage & Existing Rates, Garrison-Quincy Water District - Sewer Division and Attachment 6, Proposed Billing Analysis - 2019 Usage & Proposed Rates, Garrison-Quincy Water District - Sewer Division. \$201,482 (Revenue Proposed Sewer Rates) - \$149,246 (Revenue Existing Sewer Rates) = \$52,236.

<sup>7</sup> *Id.*, Attachment 1, Customer Notice.

<sup>8</sup> Staff Report Summary of Findings, Water Division at 4.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.* at 20–22, Adjustment G.

<sup>11</sup> *Id.*, Summary of Findings, Sewer Division at 6.

require an increase in annual revenue from sewer service of \$180,036, or 120.63 percent.<sup>12</sup>

On July 26, 2021, Garrison District filed with the Commission its comments in response to the July 13, 2021 Staff Report.<sup>13</sup> In its Response to Staff Report, Garrison District disagreed with Staff's allocations of Field Employee salaries and noted two errors in the water division's pro forma operating expenses.<sup>14</sup> Garrison District amended its application to request an increase in its sewer rates of 45.00 percent, an increase in its water rates of 12.80 percent, and continued its request for a water loss reduction surcharge of \$1.73 per month for each active meter.<sup>15</sup>

Garrison District waived its right to request an informal conference or a formal hearing conditioned on the Commission's acceptance of the water and sewer rates contained in its Response to Staff Report.<sup>16</sup> Although Garrison District did not agree with Staff's removal of labor expenses from its nonrecurring charges, Garrison District did not wish to contest that adjustment in this case.<sup>17</sup> Garrison District argued that its failure to object to Staff's findings concerning the reduction of labor costs from its nonrecurring charges should not be construed as a waiver of Garrison District's right to contest a similar finding in a future rate proceeding.<sup>18</sup>

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<sup>12</sup> *Id.*

<sup>13</sup> Garrison District's Response to the Staff Report (Response to Staff Report) (filed July 27, 2021).

<sup>14</sup> *Id.*, Staff's Pro Forma Operations Column for the water division did not include Contractual Services – Water Testing of \$3,443 or Contractual Services – Other of \$3,525.

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

In its Order dated September 2, 2021, the Commission directed Garrison District to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended water rates, its amended sewer rates and its requested water loss reduction surcharge. On September 15, 2021, Garrison District submitted the requested proof that the customer notice was published on September 14, 2021, in the *Lewis County Herald* newspaper.

WATER LOSS

Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. As noted in the Staff Report, Garrison District's test-year water loss was 38.79 percent.<sup>19</sup> Accordingly, Staff reduced test-year expenses by \$22,117 to account for the cost of 23.79 percent excess water loss.<sup>20</sup> The Commission notes that Garrison District's total cost of water loss is \$36,066 annually at the current 38.79 percent rate.<sup>21</sup>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Garrison District to pursue reasonable actions to reduce its unaccounted-for

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<sup>19</sup> Staff Report at 20–22, Adjustment G.

<sup>20</sup> *Id.*, \$10,111 (Purchased Water) + \$8,746 (Purchased Power expense) + \$3,260 (Chemical expense) = \$22,117.

<sup>21</sup>

|                                     | <u>Water</u>     | <u>Electricity</u> | <u>Chemicals</u> | <u>Total</u>     |
|-------------------------------------|------------------|--------------------|------------------|------------------|
| Allowable Purchases                 | \$ 42,506        | \$ 36,766          | \$ 13,705        | \$ 92,977        |
| Multiplied by: Test Year Water Loss | <u>38.79%</u>    | <u>38.79%</u>      | <u>38.79%</u>    | <u>38.79%</u>    |
| Cost of Water Loss                  | <u>\$ 16,488</u> | <u>\$ 14,262</u>   | <u>\$ 5,316</u>  | <u>\$ 36,066</u> |

water loss. Failure by Garrison District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

TEST PERIOD

The calendar year ended December 31, 2019, was used as the test year to determine the reasonableness of Garrison District’s existing and proposed water rates as required by 807 KAR 5:076, Section 9.

DISCUSSION AND FINDINGS FOR WATER DIVISION  
REVENUE REQUIREMENT ADJUSTMENTS

The Staff Report, as revised, summarized Garrison District’s pro forma income statement for the water division as follows: <sup>22</sup>

| Garrison District - Water Division |                         |                                   |                                  |
|------------------------------------|-------------------------|-----------------------------------|----------------------------------|
|                                    | Test Year<br>Operations | Staff<br>Pro Forma<br>Adjustments | Staff<br>Pro Forma<br>Operations |
| Operating Revenues                 | \$ 543,541              | \$ (1,245)                        | \$ 542,296                       |
| Operating Expenses                 | 692,468                 | (203,218)                         | 489,250                          |
| Income Available for Debt Service  | \$ (148,927)            | \$ 201,973                        | \$ 53,046                        |

Based upon a review of the Staff Report and Garrison District’s comments, and being otherwise sufficiently advised, for the reasons discussed below, the Commission concludes that certain adjustments to Garrison District’s water division’s revenue requirements should be approved.

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<sup>22</sup> See Appendix D for a detailed Pro Forma Income Statement for Garrison District’s water division. In its Responses Garrison District noted that there were two errors in the water division’s pro forma operating expenses. The Contractual Services – Water Testing expense of \$3,443 and Contractual Services – Other expense of \$3,525 was included in Staff’s calculation of Garrison District’s Test-Year Operating Expenses for the water division of \$692,468 but were excluded from Pro Forma Operating Expenses for the water division of \$4,82,282. The Summary Schedule above and the detailed Pro Forma Income for the water division in Appendix D have been adjusted to correct the error.

Other Water Revenue. In the Staff Report, Staff recommended a total reduction to Revenue from Water Sales of \$63,636,<sup>23</sup> to eliminate the misclassification of Other Operating Revenues.<sup>24</sup> Staff also adjusted Garrison District's Nonrecurring Charges to remove labor costs that were previously included in Nonrecurring Charges, which reduced the amount of Nonrecurring Charges.<sup>25</sup> Staff recommended reducing Other Water Revenues to \$22,930<sup>26</sup> due to reduction of Labor Expenses with an increase in the overall revenue of \$40,706.<sup>27</sup>

|                                | Test Year<br>Operations | Staff Pro Forma<br>Adjustments | Commission Pro<br>Forma Operations |
|--------------------------------|-------------------------|--------------------------------|------------------------------------|
| Operating Revenues             |                         |                                |                                    |
| Sales of Water                 | \$ 543,541.00           | \$ (24,175.00)                 | \$ 519,366.00                      |
| Total Water Sales              | <u>\$ 543,541.00</u>    | <u>\$ (24,175.00)</u>          | <u>\$ 519,366.00</u>               |
| Other Water Revenue            |                         |                                |                                    |
| Forfeited Discounts            | \$ 56,200.00            | \$ (36,530.00)                 | \$ 19,670.00                       |
| Miscellaneous Service Revenues | \$ 7,436.00             | \$ (4,176.00)                  | \$ 3,260.00                        |
| Total Other Water Revenue      | <u>\$ 63,636.00</u>     | <u>\$ (40,706.00)</u>          | <u>\$ 22,930.00</u>                |

The Commission finds that because personnel are paid during normal business hours and there is no evidence that Garrison District incurs additional labor costs beyond employee compensation already recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Garrison District's proposed nonrecurring charges should be revised consistent with the findings contained in this Order. By reflecting only the marginal costs

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<sup>23</sup> Staff Report at 10, Adjustment A.

<sup>24</sup> *Id.*, Adjustment A less Adjustment B.

<sup>25</sup> *Id.* at 5–6, Adjustment B.

<sup>26</sup> Late Payment Penalties of \$19,670 and Miscellaneous Service Revenues of \$3,260.

<sup>27</sup> Staff Report at 11, Table.

incurred in special nonrecurring charges, Garrison District's rates will be more in line with the principle of cost causation. Merely allocating a fixed expense of ordinary labor costs in special nonrecurring charges, like connect or reconnect fees, creates a mismatch between how a utility incurs expenses and how it recovers those expenses from customers. For a publicly owned, nonprofit utility such as Garrison District that operates on thin margins, the Commission finds it is reasonable and necessary to provide appropriate rates to help ensure the health of the utility's operations. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates reflect, to a reasonable degree, the principle of cost causation while simultaneously taking into account the health of the utility and the ability of the utility to provide the adequate, efficient and reasonable provision of service. In keeping with precedent, the Commission finds this adjustment to be reasonable.

Billing Analysis Adjustment. In the Staff Report, Staff recommended the Commission decrease revenue from water sales by a sum total of \$39,461.<sup>28</sup> Garrison District's water sales revenue included Bulk Sales revenues, as stated in its 2019 PSC Annual Report (2019 AR) for its water division.<sup>29</sup> Garrison District explained that the bulk sale water receipts were overstated by 1,060 gallons and that the revenue was a combination of water sales revenue and sales tax.<sup>30</sup> The Commission finds that this adjustment is reasonable because a thorough examination of Garrison District's billing

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<sup>28</sup> *Id.* at 12, Adjustment B.

<sup>29</sup> Garrison District's Response to Staff's Second Request for Information (Staff's Second Request)(filed May 19, 2021), Item 3.

<sup>30</sup> *Id.*



analysis was completed by Staff and Staff normalized revenue based on the information that Garrison District provided.

Employee Salaries and Wages. In the Staff Report, Staff calculated Garrison District's total pro forma salaries of \$220,936 using Garrison District's current staff level of six full-time employees, the hours that each employee worked in the test year, and the 2020 employee wage rates.<sup>31</sup> Staff allocated pro forma salaries to the water and sewer divisions using the salary allocation methodology that was used in Case No. 2013-00350,<sup>32</sup> which resulted in a \$50,066 decrease in the water division's Salaries and Wages expense.<sup>33</sup>

In its Response to Staff Report, Garrison District explained that in 2011-2012 its sewer division was just beginning operations, which required its field employees, who service both the water and sewer divisions, to spend a greater amount of time at the sewer division during this start-up period.<sup>34</sup> Garrison District claimed that it has now performed a new, thorough evaluation of the time field employees spend at the water and sewer divisions, which resulted in its revised salary allocations.<sup>35</sup> In support of its revised allocations, Garrison District explained that its field employee evaluation was based on the manager's experience with the water and sewer systems' operating requirements.<sup>36</sup>

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<sup>31</sup> Staff Report, at 12–17, Adjustment C.

<sup>32</sup> Case No. 2013-00350, *Alternative Rate Adjustment Filing Garrison-Quincy -Ky-O-Heights Water District* (Ky. PSC Feb. 19, 2014).

<sup>33</sup> Staff Report at 9–10, Pro Forma Operating Statement, water division, Adjustment C.

<sup>34</sup> Response to Staff Report, paragraph 2.a.

<sup>35</sup> *Id.*

<sup>36</sup> Garrison District's Responses to Commission Staff's Fourth Request for Information (filed Aug. 24, 2021), Item 1.b.

Garrison District's proposed allocations shifts \$25,473 of the Employee Salaries and Wages expense from the sewer division back to the water division.<sup>37</sup>

Garrison District began providing sewer service on May 1, 2011.<sup>38</sup> When the allocation factors for Garrison District's field employees were developed and approved in Case No. 2013-00350, the sewer division had only operated for approximately two years. Given that the sewer division has been providing service for ten years, the allocation factors for the field employee time should be updated to better reflect actual time spent working in the respective divisions.

As noted above, Garrison District's revised field employee allocations are based upon Garrison District's manager's past experience with water and sewer systems, rather than on actual time studies. Cost allocations based on experience fail to meet the rate-making criteria of being known and measurable. The Commission prefers to base employee salary allocations on time studies that Garrison District has yet to perform. In the short-term, until Garrison District can complete an acceptable time study, the Commission will accept Garrison District's revised allocations which results in an increase

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<sup>37</sup> Response to Staff Report, paragraph 2.a.

<sup>38</sup> *Annual Report of Garrison Quincy-Ky-O-Heights Water District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2011* at 8. The Commission approved a Certificate of Public Convenience and Necessity (CPCN) for Garrison District to construct the sewer facilities in Case No. 2010-00163, *Application of Garrison-Quincy-Ky-O-Heights Water District of Lewis County, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC May 21, 2010).

to the water division's pro forma Salaries and Wages expense of \$141,868<sup>39</sup> by \$25,473 for a revised pro forma level of \$167,341.<sup>40</sup>

The Commission finds that, in order to accurately capture the actual time spent working in each division, Garrison District should complete a detailed analysis of the time each of its three field employees spends at each division. Garrison District should require its field employees to complete hourly time records that track the time each employee spends working at the water and sewer divisions between January and April 2022. In 2023, the field employee time analysis should be tracked during May through August. In 2024, the field employee time analysis should be tracked during September through December. On or before June 30, 2025, Garrison District should file a rate application for its water and sewer divisions allocating the employee time between the two divisions using the completed field employee time analysis. The field employee time analysis with supporting employee time records should be filed with Garrison District's rate applications.

Expenses Related to Installation of Taps. In the Staff Report, Staff recommended the Commission decrease and capitalize test year expenses of \$13,250 to reflect Garrison District's current tap fee of \$1,325 multiplied by 10, the number of taps installed during the test period.<sup>41</sup> The Commission finds that, in the absence of utility records to properly account for expenses related to the installation of meter taps, the method

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<sup>39</sup> \$191,394 (Reported Employee Salaries and Wages expense – Water Division) - \$50,066 (Staff's Pro Forma Allocation Adjustment) = \$141,868.

<sup>40</sup> \$141,868 (Staff's Pro Forma Employee Salaries and Wages expense – Water Division) - \$25,473 (Garrison District's Revised Allocation Adjustment) = \$167,341.

<sup>41</sup> Staff Report at 17–18, Adjustment D.

proposed by Staff is a reasonable proxy because it is correlated to actual revenue received for tap installation. Without sufficient evidence of the expense amount, allowing Garrison District to recover in rates an expense amount that is greater than test-year revenue could result in an over-recovery. The Commission further finds that Garrison District should retain sufficient information in its utility records going forward to properly calculate the expenses directly related to the installation of its water meter taps in future proceedings.

Allocation of Shared Expenses. In the Staff Report, Staff found that the expenses listed in the table below benefit both divisions and proposed to allocate the shared costs using the customer allocation factor.<sup>42</sup> The Commission finds that the shared cost allocation methodology employed by Staff conforms to past Commission precedent,<sup>43</sup> results in a reasonable allocation of shared costs between the two divisions and, therefore, should be accepted. As calculated in the table below the Commission is reducing the water divisions operating expenses by \$11,258.<sup>44</sup>

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<sup>42</sup> *Id.* at 18–19, Adjustment E.

<sup>43</sup> Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Jan. 21, 2020); Case No. 2017-00371, *Application of Symsonia Water and Sewer District for Rate Adjustment Pursuant To 807 KAR 5:076* (Staff Report Jan 3, 2018 at 6–7; Ky. PSC Mar. 30, 2018); and Case No. 2017-00074, *Application of Western Lewis-Rectorville Water and Gas District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076*, (Staff Report July 17, 2017 at 4-6; Ky. PSC Oct. 18, 2017).

<sup>44</sup> Miscellaneous Exp. Adjustment: (\$948) + (\$1,732) + (\$481) + (\$674) = (\$3,835).

|                                    | Test-Year Expense |                 |                  | Allocate           |                  | Allocation Adjustments                 |                    |
|------------------------------------|-------------------|-----------------|------------------|--------------------|------------------|--|--------------------|
|                                    | Water Division    | Sewer Division  | Total            | 77.83%             | 22.17%           | Operating Exp. Accounts Water Division | Water Division     |
|                                    |                   |                 |                  | Water Division     | Sewer Division   |  |                    |
| Salaries and Wages - Commissioners | \$ 8,100          |                 | \$ 8,100         | \$ 6,304           | \$ 1,796         | Salaries and Wages - Com.              | \$ (1,796)         |
| Purchased Power Office             | 4,275             |                 | 4,275            | 3,327              | 948              | Misc. Exp.                             | (948)              |
| Materials and Supplies, Office     | 16,350            | \$ 2,432        | 18,782           | 14,618             | 4,164            | Misc. Exp.                             | (1,732)            |
| Accounting - Audit                 | 20,877            |                 | 20,877           | 16,249             | 4,628            | Contractual Services - Acc.            | (4,628)            |
| Dues and Subscriptions             | 2,169             |                 | 2,169            | 1,688              | 481              | Misc. Exp.                             | (481)              |
| Transportation                     | 4,494             | 334             | 4,828            | 3,758              | 1,070            | Transportation Exp.                    | (736)              |
| Continuing Education               | 3,041             |                 | 3,041            | 2,367              | 674              | Misc. Exp.                             | (674)              |
| Depreciation on Shared Assets      | 1,185             |                 | 1,185            | 922                | 263              | Depreciation Exp.                      | (263)              |
| Total                              | <u>\$ 60,491</u>  | <u>\$ 2,766</u> | <u>\$ 63,257</u> | 49,233             | 14,024           |  | <u>\$ (11,258)</u> |
| Less: Test-Year                    |                   |                 |                  | (60,491)           | (2,766)          |  |                    |
| Adjustment                         |                   |                 |                  | <u>\$ (11,258)</u> | <u>\$ 11,258</u> |  |                    |

Employee Pension and Benefits. In the Staff Report, Staff allocated the pro forma CERS contributions of \$59,542<sup>45</sup> and health insurance payments of \$21,600<sup>46</sup> between the two divisions using the final wage allocation factors resulting in a decrease to the water division's Employee Pensions and Benefits expense of \$25,724.<sup>47</sup> The Commission finds that the adjustment to Employee Pensions and Benefits meets the criteria of being known and measurable,<sup>48</sup> and is reasonable. Further, based upon the adjustments made herein to the allocations of labor expense between the water and

<sup>45</sup> \$220,936 (Total Pro Forma Employee Salaries and Wages) x 26.95% (CERS Contribution Rate) = \$59,542.

<sup>46</sup> \$300 (Employer Health Insurance Contribution) x 6 (Number of Employees) = \$1,800 x 12-Months = \$21,600.

<sup>47</sup> Staff Report at 19–20, Adjustment F.

<sup>48</sup> 807 KAR 5:001, Section 16(1)(a); See Case No. 2001-00211, *The 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 therefor; (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); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

sewer divisions, the Commission finds that Staff's Employee Pension and Benefit expense allocated to the water division of \$52,101 should be increased by \$9,356 for a pro forma level of \$61,457.<sup>49</sup>

Excess Water Loss. In the Staff Report, Staff recommended the Commission accept Garrison District's proposed adjustments to reduce Purchased Water expense by \$10,111, Purchased Power expense by \$8,746, and Chemical expense by \$3,260 to eliminate the costs attributable to excessive water loss pursuant to 807 KAR 5:066, Section 6(3).<sup>50</sup> The Commission finds the adjustments proposed by Garrison District and by Staff properly reflects the limitations imposed by the regulation and should be accepted.

Insurance—General Liability. In the Staff Report, Staff allocated Garrison District's general liability insurance premium of \$10,216 between the divisions on each division's pro forma present rate revenues.<sup>51</sup> Staff's proposed allocation resulted in a decrease of \$2,195 to the water division's Insurance – General Liability expense.<sup>52</sup> The Commission finds Staff's proposed allocation to be reasonable given that historically the general liability insurance premium is dependent on the level of an entity's annual revenues.

Insurance—Workers' Compensation. In the Staff Report, Staff allocated Garrison District's workers' compensation premium of \$4,028 between the divisions based on

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<sup>49</sup>  $\$59,542$  (Total CERS Contributions) +  $\$21,600$  (Total Employee Health Insurance) =  $\$81,142$  x 75.74% (Revised Labor Allocation – Water Division) =  $\$61,457$  -  $\$52,101$  (Employee Pensions and Benefits – Staff Allocated to the Water Division) =  $\$9,356$ .

<sup>50</sup> Staff Report at 20–22, Adjustment G.

<sup>51</sup> *Id.* at 22–23, Adjustment H.

<sup>52</sup> *Id.*

Staff's pro forma employee wage expense allocations.<sup>53</sup> Staff's cost allocation resulted in a decrease to the water division's Insurance—Workers' Compensation expense of \$1,442.<sup>54</sup> The Commission finds Staff's proposed adjustment to be reasonable given the relationship between employee salaries and the level of the workers' compensation premium. In addition, based upon the adjustments made herein to the allocations of labor expense between the water and sewer divisions, the Commission finds that Staff's Insurance—Workers Compensation expense allocated to the water division of \$2,586 should be increased an additional \$465 for a pro forma level of \$3,051.<sup>55</sup>

CERS Liability. In the Staff Report, Staff recommended the Commission accept Garrison District's proposed adjustment to reduce Miscellaneous expense by \$81,060<sup>56</sup> to remove the CERS liability.<sup>57</sup> The Commission finds that the adjustment to remove the CERS liability should be accepted as it meets the ratemaking criteria of being known and measurable and is reasonable.

Depreciation. In the Staff Report, Staff recommended an adjustment increasing test-year Depreciation expense of \$101,505 by \$13,124<sup>58</sup> in keeping with Commission

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<sup>53</sup> *Id.* at 23, Adjustment I.

<sup>54</sup> *Id.*

<sup>55</sup> \$4,028 (Total Workers Compensation Premium) x 75.74% (Labor Allocation – Water Division) = \$3,051 - \$2,586 (Workers Compensation Premium – Staff Allocated to the Water Division) = \$465.

<sup>56</sup> \$81,060 (CERS Adjustment) + \$3,835 (Ref E - Shared Expense Adjustment) = \$84,895 (Total Miscellaneous Adjustment).

<sup>57</sup> Staff Report at 23–24, Adjustment J.

<sup>58</sup> \$13,124 (NARUC Depreciation Adjustment) - \$263 (Ref E - Shared Expense Adjustment) = \$12,861 (Net Depreciation Adjustment).

precedent<sup>59</sup> of using the NARUC Study depreciable life midpoint when no evidence exists to support a specific life that is outside the NARUC Study ranges.<sup>60</sup> The Commission finds that this adjustment is reasonable and should be accepted as it is consistent with Commission precedent.<sup>61</sup>

Taxes Other Than Income–Payroll Taxes. In the Staff Report, Staff recommended that the test-year Payroll Tax expense for Garrison District’s water division of \$20,803 be decreased by \$9,230 to reflect the impact Staff’s allocation adjustment to Salaries and Wages expense has on Federal Insurance Contributions Act tax (FICA).<sup>62</sup> The Commission finds, based on the evidence of record, the adjustment reflects the level of the water division’s FICA expense that decreased as a result of Staff’s proposed payroll allocations. In addition, based upon the adjustments made herein to the allocations of labor expense between the water and sewer divisions, the Commission finds that Staff’s FICA expense allocated to the water division of \$10,853 should be increased by an additional \$1,949 for a pro forma level of \$12,802.<sup>63</sup>

### Summary of the Water Division’s Revenue and Expenses

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<sup>59</sup> See Case No. 2016-00163 *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

<sup>60</sup> Staff Report at 24–25, Adjustment K.

<sup>61</sup> See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); and Case No. 2020-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021).

<sup>62</sup> Staff Report at 25, Adjustment L.

<sup>63</sup> \$25,473 (Employee Salaries and Wages Adjustment – Water Division) x 7.65% (FICA Rate) = \$1,949.



Based on the pro forma adjustments approved herein, Garrison District's pro forma operational revenue for its water division is as follows:<sup>64</sup>

| Garrison District - Water Division |                     |                   |                    |                  |
|------------------------------------|---------------------|-------------------|--------------------|------------------|
|                                    | Test Year           | Staff             | Commission         | Commission       |
|                                    | Operations          | Pro Forma         | Pro Forma          | Pro Forma        |
|                                    |                     | Adjustments       | Adjustments        | Operations       |
| Operating Revenues                 | \$ 543,541          | \$ (1,245)        | \$ -               | \$ 542,296       |
| Operating Expenses                 | 692,468             | (203,218)         | 37,243             | 526,493          |
| Income Available for Debt Service  | <u>\$ (148,927)</u> | <u>\$ 201,973</u> | <u>\$ (37,243)</u> | <u>\$ 15,803</u> |

**DISCUSSION AND FINDINGS FOR SEWER DIVISION'S  
REVENUE REQUIREMENT ADJUSTMENTS**

The Staff Report, as revised, summarized Garrison District's pro forma income statement for the Sewer division as follows:<sup>65</sup>

| Garrison District - Sewer Division |                    |                    |                     |
|------------------------------------|--------------------|--------------------|---------------------|
|                                    | Test-Year          | Staff              | Staff               |
|                                    | Operations         | Pro Forma          | Pro Forma           |
|                                    |                    | Adjustments        | Operations          |
| Operating Revenues                 | \$ 141,531         | \$ 14,589          | \$ 156,120          |
| Operating Expenses                 | 188,616            | 110,521            | 299,137             |
| Income Available for Debt Service  | <u>\$ (47,085)</u> | <u>\$ (95,932)</u> | <u>\$ (143,017)</u> |

Based upon a review of the Staff Report and Garrison District's comments, and being otherwise sufficiently advised, for the reasons discussed below, the Commission concludes that certain adjustments to Garrison District's sewer division's revenue requirements should be approved.

<sup>64</sup> See Appendix D for a detailed Pro Forma Income Statement for Garrison District's water division.

<sup>65</sup> See Appendix D for a detailed Pro Forma Income Statement for Garrison District's sewer division. The Pro Forma Operating Statement for the sewer division on page 26 of the Staff Report incorrectly lists the Adjustment to Collection – Labor, Materials & expenses as \$79,068. The actual Pro Forma adjustment for the sewer division is \$26,376 the total Pro Forma adjusted Collection – Labor, Materials & expense balance is \$79,068. The revenue requirement calculation for the sewer division on page 34 of the Staff Report includes the correct Pro Forma Operating Expenses of \$299,137.

Other Operating Revenue. Cost justification sheets were provided by Garrison District to support nonrecurring charges for sewer customers. Staff used the information in the cost justification sheets to determine that the Other Sewer revenues equaled \$6,874 and is composed of late payment fees of \$6,566 and connection charges of \$308. An increase to the revenue requirement of \$6,874 is the result of the adjustments to nonrecurring charges.<sup>66</sup>

|                         | Test Year<br>Operations | Staff Pro Forma<br>Adjustments | Commission Pro<br>Forma Operations |
|-------------------------|-------------------------|--------------------------------|------------------------------------|
| Operating Revenues      |                         |                                |                                    |
| Sewer Service           | \$ 141,531              | \$ 7,715                       | \$ 149,246                         |
| Other Sewer Revenue     | -                       | \$ 6,874                       | \$ 6,874                           |
| Total Operating Revenue | <u>\$ 141,531</u>       | <u>\$ 14,589</u>               | <u>\$ 156,120</u>                  |

The Commission finds that because personnel are paid during normal business hours and there is no evidence that Garrison District incurs additional labor costs beyond employee compensation already recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Garrison District's sewer division's proposed nonrecurring charges should be revised consistent with the findings contained in this Order.

Billing Analysis Adjustment. Sewer rates for Garrison District's customers are based on the water consumption of the customer. Garrison District provided a billing analysis for the sewer division customers based on the test year. Staff's review of the billing analysis provided the normalized test year revenue for all sewer customers of

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<sup>66</sup> Staff Report at 27, Table.

\$149,246, which increased Operating Revenues from Sewer service by \$7,715.<sup>67</sup> The Commission finds that this adjustment is reasonable, and the normalized revenue was based on the information that Garrison District provided.

Employee Salaries and Wages. In the test-year, Garrison District reported Employee Salaries and Wages expense of \$52,692 for its sewer division.<sup>68</sup> In its report, Staff determined that 35.79 percent of total pro forma Employee Salaries and Wages expense of \$220,936 should be allocated to Garrison District's sewer division.<sup>69</sup> To reflect its proposed salary allocations, Staff increased the sewer division's Employee Salaries and Wages expense by \$26,376 to a pro forma level of \$79,068.<sup>70</sup>

Based upon the Commission finding above accepting Garrison District's revised field employee allocations in the short-term, the Commission is decreasing Staff's recommended Employee Salaries and Wages expense for the sewer division of \$79,068 by \$25,473 to a revised Pro Forma level of \$53,595.<sup>71</sup>

Expenses Related to Installation of Taps. In the test-year, Garrison District installed one tap in its sewer system. Staff recommended the Commission decrease and capitalize test year expenses of \$4,725 to reflect Garrison District's current sewer tap fee.<sup>72</sup> The Commission finds that in the absence of utility records to properly account for

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<sup>67</sup> *Id.* at 27, Adjustment B less Adjustment A.

<sup>68</sup> *Id.* at 27–28, Adjustment C.

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*

<sup>71</sup> \$79,068 (Staff's Recommended Pro Forma Employee Salaries and Wages expense – sewer Division) - \$25,473 (Revised Field Employee Allocation) = \$53,595

<sup>72</sup> Staff Report at 28–29, Adjustment D.

expenses related to the installation of meter taps, the method proposed by Staff is reasonable. Further, the Commission finds that Garrison District should retain sufficient information in its utility records going forward to properly calculate the expenses directly related to the installation of its meter taps.

Allocation of Shared Expenses. In the Staff Report, Staff found that the expenses listed in the table below benefit both divisions and proposed to allocate the shared costs using the number of customer allocation factor.<sup>73</sup> As previously noted, the Commission found that the shared cost allocation methodology employed by Staff conforms to past Commission precedent, results in a reasonable allocation of shared costs between the divisions and, therefore, should be accepted. As calculated in the table below the Commission is increasing the sewer divisions operating expenses by \$11,258.<sup>74</sup>

|                                    | Test-Year Expense |                 |                  | Allocate           |                  | Allocation Adjustments                 |                  |
|------------------------------------|-------------------|-----------------|------------------|--------------------|------------------|--|------------------|
|                                    | Water Division    | Sewer Division  | Total            | 77.83%             | 22.17%           | Operating Exp. Accounts Sewer Division | Sewer Division   |
|                                    |                   |                 |                  | Water Division     | Sewer Division   |  |                  |
| Salaries and Wages - Commissioners | \$ 8,100          |                 | \$ 8,100         | \$ 6,304           | \$ 1,796         | Salaries and Wages - Com.              | \$ 1,796         |
| Purchased Power Office             | 4,275             |                 | 4,275            | 3,327              | 948              | Misc. Exp.                             | 948              |
| Materials and Supplies, Office     | 16,350            | \$ 2,432        | 18,782           | 14,618             | 4,164            | Misc. Exp.                             | 1,732            |
| Accounting - Audit                 | 20,877            |                 | 20,877           | 16,249             | 4,628            | Contractual Services                   | 4,628            |
| Dues and Subscriptions             | 2,169             |                 | 2,169            | 1,688              | 481              | Misc. Exp.                             | 481              |
| Transportation                     | 4,494             | 334             | 4,828            | 3,758              | 1,070            | Transportation Exp.                    | 736              |
| Continuing Education               | 3,041             |                 | 3,041            | 2,367              | 674              | Misc. Exp.                             | 674              |
| Depreciation on Shared Assets      | 1,185             |                 | 1,185            | 922                | 263              | Depreciation Exp.                      | 263              |
| Total                              | <u>\$ 60,491</u>  | <u>\$ 2,766</u> | <u>\$ 63,257</u> | 49,233             | 14,024           |  | <u>\$ 11,258</u> |
| Less: Test-Year                    |                   |                 |                  | (60,491)           | (2,766)          |  |                  |
| Adjustment                         |                   |                 |                  | <u>\$ (11,258)</u> | <u>\$ 11,258</u> |  |                  |

<sup>73</sup> *Id.* at 29, Adjustment E.

<sup>74</sup> Miscellaneous Exp. Adjustment: \$948 + \$1,732 + \$481 + \$674 = \$3,835.

Employee Pension and Benefits. In the Staff Report, Staff allocated the pro forma CERS contributions of \$59,542<sup>75</sup> and health insurance payments of \$21,600<sup>76</sup> between the two divisions using the final wage allocation factors resulting in a decrease to the water division's Employee Pensions and Benefits expense of \$29,041.<sup>77</sup> The Commission finds that the adjustment to Employee Pensions and Benefits meets the criteria of being known and measurable and is reasonable. Further, based upon the adjustments made herein to the allocations of labor expense between the water and sewer divisions, the Commission finds that Staff's Employee Pension and Benefit expense allocated to the sewer division of \$29,041 should be decreased by an additional \$9,356 for a pro forma level of \$19,685.<sup>78</sup>

Insurance—General Liability. In the Staff Report, Staff allocated Garrison District's general liability insurance premium of \$10,216 between the divisions on each division's pro forma present rate revenues.<sup>79</sup> Staff's proposed allocation resulted in an increase of \$2,195 to the sewer division's Insurance—General Liability expense.<sup>80</sup> The Commission finds Staff's proposed allocation to be reasonable given that historically the general liability insurance premium is dependent on the level of an entity's annual revenues.

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<sup>75</sup>  $\$220,936$  (Total Pro Forma Employee Salaries and Wages) x 26.95% (CERS Contribution Rate) = \$59,542.

<sup>76</sup>  $\$300$  (Employer Health Insurance Contribution) x 6 (Number of Employees) =  $\$1,800$  x 12-Months = \$21,600.

<sup>77</sup> Staff Report at 29-30, Adjustment F.

<sup>78</sup>  $\$59,542$  (Total CERS Contributions) +  $\$21,600$  (Total Employee Health Insurance) =  $\$81,142$  x 24.26% (Labor Allocation – Sewer Division) =  $\$19,685$  -  $\$29,041$  (Employee Pensions and Benefits – Staff Allocated to the Sewer Division) = ( $\$9,356$ ).

<sup>79</sup> Staff Report, at 30, Adjustment G.

<sup>80</sup> *Id.*

Insurance—Workers' Compensation. In the Staff Report, Staff allocated Garrison District's workers' compensation premium of \$4,028 between the divisions based on Staff's pro forma employee wage expense allocations.<sup>81</sup> Staff's cost allocation resulted in an increase to the sewer division's Insurance—Workers' Compensation expense of \$1,442.<sup>82</sup> The Commission finds Staff's proposed allocation to be reasonable given the relationship between employee salaries and the level of the workers' compensation premium. In addition, based upon the adjustments made herein to the allocations of labor expense between the water and sewer divisions, the Commission finds that Staff's Insurance Workers Compensation expense allocated to the sewer division of \$1,442 should be decreased by \$465 for a pro forma level of \$977.<sup>83</sup>

Depreciation. In the Staff Report, Staff recommended an adjustment increasing test-year Depreciation expense of \$77,202 by \$38,885<sup>84</sup> in keeping with Commission precedent of using the *O&M Guide for the Support of Rural Water-Wastewater Systems* by the Commission for Rural Water (Commission for Rural Water O&M Guide).<sup>85</sup> When no evidence exists to support a specific life that is inside or outside of the O&M Guide ranges, the Commission has historically used the mid-point of the O&M Guide depreciation ranges to depreciate sewer assets.<sup>86</sup> The Commission finds that this

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<sup>81</sup> *Id.* at 30–31, Adjustment H.

<sup>82</sup> *Id.*

<sup>83</sup> \$4,028 (Total Workers Compensation Premium) x 24.26% (Labor Allocation – Sewer Division) = \$977 - \$1,442 (Workers Compensation Premium – Staff Allocated to the sewer Division) = (\$465).

<sup>84</sup> \$38,885 (O&M Guide Depreciation Adjustment) + \$263 (Ref E - Shared Expense Adjustment) = \$39,148 (Total Depreciation Adjustment).

<sup>85</sup> Staff Report at 31, Adjustment I.

<sup>86</sup> See Case No. 2020-00290 *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction* (Ky. PSC Sept. 2, 2021).

adjustment is reasonable and should be accepted as it is consistent with Commission precedent.

Taxes Other Than Income—Payroll Taxes. In the Staff Report, Staff recommended that the test-year operating expenses of Garrison District’s sewer division be increased by \$6,049 to reflect allocating FICA expense to the sewer division based on Staff’s allocation adjustment to Salaries and Wages expense.<sup>87</sup> The Commission finds, based on the evidence of record, the adjustment accurately reflects the level of FICA expense that should be reported by the sewer division as a result of Staff’s proposed payroll allocations. In addition, based upon the adjustments made herein to the allocations of labor expense between the water and sewer divisions, the Commission finds that Staff’s FICA expense allocated to the sewer division of \$6,049 should be decreased by an additional \$1,949 for a pro forma level of \$4,100.<sup>88</sup>

Summary of the Sewer Division’s Revenue and Expenses

Based on the pro forma adjustments approved herein, Garrison District’s pro forma operational revenue for its sewer division is as follows:<sup>89</sup>

| Garrison District - Sewer Division |                         |                                   |  |                                       |
|------------------------------------|-------------------------|-----------------------------------|--|---------------------------------------|
|                                    | Test Year<br>Operations | Staff<br>Pro Forma<br>Adjustments | Commission<br>Pro Forma<br>Adjustments | Commission<br>Pro Forma<br>Operations |
| Operating Revenues                 | \$ 141,531              | \$ 14,589                         | \$ -                                   | \$ 156,120                            |
| Operating Expenses                 | 188,616                 | 110,521                           | (37,243)                               | 261,894                               |
| Income Available for Debt Service  | <u>\$ (47,085)</u>      | <u>\$ (95,932)</u>                | <u>\$ 37,243</u>                       | <u>\$ (105,774)</u>                   |

<sup>87</sup> Staff Report at 31-32, Adjustment J.

<sup>88</sup> (\$25,473) (Employee Salaries and Wages Adjustment – Sewer Division) x 7.65% (FICA Rate) = (\$1,949).

<sup>89</sup> See Appendix D for a detailed Pro Forma Income Statement for Garrison District’s sewer division.

## SUMMARY OF WATER AND SEWER DIVISION 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.<sup>90</sup> The DSC 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;<sup>91</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.

### Water Division

Application of the DSC method to Garrison District's pro forma water operations, that reflect, the Commission's findings and determinations discussed in the above sections, requires a total water revenue requirement of \$585,581. A water revenue increase of \$66,215 or 12.75 percent, is necessary to generate the total revenue requirement. This increase is required for Garrison District to remain operational and

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<sup>90</sup> See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020); Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020); Case No. 2021-00126, *Electronic Application of South Eastern Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Sep. 17, 2021); and Case No. 2021-00013, *Electronic Application of Edmonson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 4, 2021).

<sup>91</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).



financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.<sup>92</sup>

|                                   |    |                  |
|-----------------------------------|----|------------------|
| Pro Forma Operating Expenses      | \$ | 526,493          |
| Plus: Average Annual Debt Service |    | 91,852           |
| Debt Service Coverage             |    | <u>18,370</u>    |
| Overall Revenue Requirement       |    | 636,715          |
| Less: Other Water Revenues        |    | (22,930)         |
| Other Income - Surcharges         |    | (22,944)         |
| Interest Income                   |    | <u>(5,260)</u>   |
| Revenue Required - Water Sales    |    | 585,581          |
| Less: Normalized Revenue - Water  |    | <u>(519,366)</u> |
| Required Revenue Increase         | \$ | <u>66,215</u>    |
| Percentage Increase               |    | <u>12.75%</u>    |

Sewer Division

Application of the DSC method to Garrison District's pro forma sewer operations, that reflect, the Commission's findings and determinations discussed in the above sections, results in a total sewer revenue requirement of \$298,913. A sewer revenue increase of \$142,793 or 95.68 percent, is necessary to generate the total revenue requirement.

Throughout all three phases of the implementation of the proposed rate adjustment, Garrison District's revenues will meet the debt service requirements of its

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<sup>92</sup> KRS 278.030(2).

lenders.<sup>93</sup> The record contains no evidence that permitting Garrison District to assess sewer rates at a level lower than could be supported will result in any degradation or reduction in the quality of service that Garrison District currently provides. A utility may assess rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as sufficient or adequate.<sup>94</sup> Absent evidence that the quality of the utility's service will decline or be degraded as a result of this level of revenue, the rate phase-in plan should be approved.

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|  | Phase 1          | Phase 2          | Phase 3           |
|--|------------------|------------------|-------------------|
| Sewer Revenues - Existing Rates                | \$ 149,246       | \$ 149,246       | \$ 149,246        |
| Add: Other Operating Revenues - sewer division | 6,874            | 6,874            | 6,874             |
| Add: Phase 1, Phase 2, and Phase 3 Increases   | <u>67,161</u>    | <u>99,625</u>    | <u>136,936</u>    |
| Gross Sewer Revenues with Phase-Ins            | 223,281          | 255,745          | 293,056           |
| Less: Operating Expenses - sewer division      | (261,894)        | (261,894)        | (261,894)         |
| Add: Depreciation expense - sewer division     | <u>116,350</u>   | <u>116,350</u>   | <u>116,350</u>    |
| Net Available for DSC                          | 77,737           | 110,201          | 147,512           |
| Divide by: Average Debt Service                | <u>30,849</u>    | <u>30,849</u>    | <u>30,849</u>     |
| DSC Ratio                                      | <u>2.52</u>      | <u>3.57</u>      | <u>4.78</u>       |
| Net Available for Depreciation Fund            | <u>\$ 46,888</u> | <u>\$ 79,352</u> | <u>\$ 116,663</u> |

<sup>94</sup> *Utilities Operating Co. v King*, 143 So. 2d 854, 45 PUR3d 439, 443 (Fla. 1962) ("[I]n the absence of some showing that the service to the public will suffer by allowing . . . [a] utility to charge rates which will not produce a fair return, the utility and not the Commission has the right of decision as to the rates it will charge so long as they do not exceed those which would produce a fair return as determined by the Commission"). See also, Case No. 2006-00410, *The Application of Hardin County Water District No. 1 for a General Rate Adjustment Effective on and after December 2, 2006* (Ky. PSC Aug. 2, 2007); Case No. 98-398, *Adjustment of Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

|                                   |    |                  |
|-----------------------------------|----|------------------|
| Pro Forma Operating Expenses      | \$ | 261,894          |
| Plus: Average Annual Debt Service |    | 30,849           |
| Debt Service Coverage             |    | <u>6,170</u>     |
| Overall Revenue Requirement       |    | 298,913          |
| Less: Other Operating Revenues    |    | <u>(6,874)</u>   |
| Revenue Required from Water Sales |    | 292,039          |
| Less: Normalized Revenue - Sewer  |    | <u>(149,246)</u> |
| Required Revenue Increase         | \$ | <u>142,793</u>   |
| Percentage Increase               |    | <u>95.68%</u>    |

### WATER LOSS SURCHARGE

In the Staff Report, Staff recommended the Commission approve Garrison District’s requested \$1.73 per customer per month surcharge and apply the resulting funds towards water loss reduction efforts.<sup>95</sup> The surcharge would produce \$22,117<sup>96</sup> per year for total collections over the four years of \$88,468.<sup>97</sup> The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3). The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss.<sup>98</sup> In establishing water-loss surcharges, the Commission recognized that the adjustments

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<sup>95</sup> Staff Report at 21–22.

<sup>96</sup> *Id.*

<sup>97</sup> \$22,117 (Monthly Surcharge Collections) x 4 (Years) = \$88,468.

<sup>98</sup> See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges*, (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2010).

required comply with the 15.00 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water utility's water loss reduction efforts allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge, and public confidence in the water district's use of those funds. In its report entitled, "*Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019*" that was fully incorporated in the final Order in Case No. 2019-00041, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.<sup>99</sup>

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Garrison District to recover the cost of its efforts in water leak detection and repair in order to reduce the increased expense and lost revenue from unaccounted-for water loss. The Commission finds that a monthly water loss reduction surcharge of \$1.73 per active meter over 48 months should be approved. Garrison District should be restricted to expending any funds collected under the surcharge subject to authorization by the Commission. Garrison District should file a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes

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<sup>99</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

priorities, a time schedule for eliminating each source of unaccounted-for water loss, and provides a detailed spending plan for the proceeds of the requested surcharge.

DISCUSSION AND FINDINGS FOR WATER AND  
SEWER DIVISION RATE DESIGN

Water Division

Garrison District proposed to increase its monthly retail water service rates, with the exception of the Wholesale Rate, evenly across the board by approximately 18.53 percent. The Wholesale Sales Rate was excluded from the proposed rate adjustment, as Garrison District's contract with its sole wholesale customer includes the stipulation that the wholesale rate may only be increased if Garrison District's cost from the supplier increases.<sup>100</sup> Garrison District stated in discovery that the purchased water price from the supplier has not increased.<sup>101</sup> The Commission finds it reasonable to allow legal contracts or contractual agreements between the utility and the customer to remain intact when there has been no evidence entered into the record that the contract is unfair or unreasonable and that the calculated revenue increase will be only applied to base retail rates.

Garrison District did not perform a Cost of Service Study (COSS). Garrison District stated that it did not complete a COSS at this time,<sup>102</sup> as there has not been changes in the distribution of customer usage in many years and the across the board increase is the most equitable means of passing the increased costs to customers. In the Staff Report,

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<sup>100</sup> See Tariffs [2015-03-01 Amendment to Water Purchase Agreement.pdf](#) (filed Feb. 26, 2015).

<sup>101</sup> Garrison District's Response to Staff's First Request for Information (Staff's First Request) (filed April 18, 2021), Item 34.

<sup>102</sup> *Id.*, Item 35.

Staff followed the method proposed by Garrison District and allocated Staff's calculated revenue increase across the board to Garrison District's monthly retail water service rates. The Commission finds that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. The rates set forth in Appendix A to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from water sales to recover the \$585,581 Revenue Required from Water Sales, an approximate 12.75 percent increase over normalized test-year water sales of \$519,366. These rates will increase the monthly bill of a typical residential customer using 3,000 gallons a month from \$28.55 to \$32.20, an increase of \$3.65, or approximately 12.78 percent.

#### Sewer Division

Garrison District proposed to increase all of its monthly retail sewer service rates evenly across the board by approximately 35 percent. In the Staff Report, Staff followed this methodology, and allocated Staff's calculated revenue increase across the board to Garrison District's monthly retail sewer service rates. In its response to the Staff Report, Garrison District requested that the Commission approve a 45.00 percent increase to the sewer rates, although the revised calculations<sup>103</sup> indicated a higher percentage increase. Garrison District stated in the response that a larger than 45.00 percent increase would create an unnecessary burden on its customers.<sup>104</sup> The Commission finds that a rate

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<sup>103</sup> Response to Staff Report, Attachment, Alloc\_Wages\_and\_Rev\_Rate\_Calcs.pdf.

<sup>104</sup> *Id.*, paragraph 2.b.

increase which is applied in phases is a reasonable method of adjusting rates while ensuring that the Garrison District's water division customers are not subsidizing Garrison District's sewer division customers. The Phase-In method will help alleviate the burden of the rate adjustment by spreading the increase over several years. The Commission finds it reasonable to approve an increase in three phases, with the first year as the requested 45.00 percent increase. The second year will be a 15.00 percent increase to the Phase 1 rates. The third year will be a 15.00 percent increase to the Phase 2 rates.

The rates set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable and will produce sufficient revenues from sewer service over three phases to approximately recover the Revenue Required from Rates, a three year-Phase In increase. The first phase of rates will increase a typical residential customer's monthly sewer bill from \$33.00 to \$47.85, an increase of \$14.85, or approximately 45.00 percent. The second phase of rates will increase a typical customer's monthly sewer bill from \$47.85 to \$55.03, an increase of \$7.18, or approximately 15.00 percent. The third phase of rates will increase a typical customer's monthly sewer bill from \$55.03 to \$63.28, an increase of \$8.25, or approximately 15.00 percent.

ALLOCATION AND ASSIGNMENT OF COSTS  
BETWEEN THE DIVISIONS

In its report in Case No. 2013-00350, Staff recommended Garrison District adopt reasonable allocation factors and methods. The new allocation methods would be presented to and approved by its board of commissioners and then would be included in

Garrison District's written accounting policies and procedures.<sup>105</sup> Staff explained that, absent the recommended cost allocation changes, subsidization between the water and sewer divisions may occur and go undetected.<sup>106</sup> In this current proceeding, Staff found that Garrison District had not followed the Staff's recommendations regarding adoption of reasonable cost allocation factors and methods.<sup>107</sup>

To prevent the possibility of future cross-subsidization between the divisions, Staff recommended the Commission direct Garrison District to make the necessary revisions to its accounting procedures and internal controls so that proper assignment and allocation revenues and expenses are recorded in its books of original entry in all future reporting periods.<sup>108</sup> Staff also recommended the Commission require Garrison District to submit its written agreement to the above condition, and to establish a deadline for Garrison District to submit its revised accounting procedures and internal controls for Commission review.<sup>109</sup>

In its Response to Staff Report, Garrison District claimed that neither its current manager nor its accounting officer were in their respective positions at the time of Case No. 2013-00350.<sup>110</sup> For this reason, they were unaware of Staff's recommendations regarding Garrison District's revenue and expense allocations between its two

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<sup>105</sup> *Id.* at 6–7.

<sup>106</sup> *Id.* at 7.

<sup>107</sup> Staff Report at 8.

<sup>108</sup> *Id.* at 9.

<sup>109</sup> *Id.*

<sup>110</sup> Response to Staff Report, paragraph 2.c.



divisions.<sup>111</sup> According to Garrison District, it now commits to implement proper allocations of employee time and other shared expenses between each division.<sup>112</sup> Garrison District also commits that its management will be diligent in monitoring the overall finances of each division for the possible future need of additional rate increases.<sup>113</sup>

The Commission is of the opinion that Garrison District's argument that its current manager and its accounting officer were not in their respective positions when the Staff Report or final Order were issued in Case No. 2013-00350 is an inadequate defense. It is the responsibility of both officers to review prior Commission decisions and to take the appropriate actions to insure that Garrison District remains in compliance with the directions of the Commission. The Commission agrees with Staff, in that if revenues and costs are not identified and allocated correctly between the two divisions, then the possibility of cross-subsidization between the water and sewer divisions exists. For this reason, the Commission finds that, effective as of the date of entry of this Order, Garrison District should begin the process of revising its accounting procedures and internal controls so that proper assignment and allocations of shared revenues and expenses are recorded in the original books of entry in all future reporting periods. The Commission further finds that Garrison District should submit in writing its agreement to this requirement within 20 days of entry of this Order and within 60 days from the date of this

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<sup>111</sup> *Id.*

<sup>112</sup> *Id.*

<sup>113</sup> *Id.*

Order, Garrison District shall submit its revised accounting procedures and internal controls for Commission review.

### SUMMARY OF FINDINGS

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The recommendations contained in the Staff Report are supported by the evidence of record, are reasonable, and as revised above, are adopted.

2. The water and sewer service rates proposed by Garrison District would produce inadequate revenues and should be denied.

3. The water service rates set forth in Appendix A to this Order produce the required revenue increase of \$66,215, are fair, just and reasonable and should be approved.

4. The Phase 1, Phase 2, and Phase 3 sewer service rates set forth in Appendix B are fair, just and reasonable and should be approved.

5. Garrison District should be authorized to assess a monthly water surcharge of \$1.73 per meter for 48 months, or until \$88,468 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction efforts as set forth in the Staff Report, subject to the conditions set forth in finding paragraph 6.

6. The Commission should open a separate case to monitor the surcharge collection and expenses, with the following conditions.

a. Within 120 days of the date of this Order, Garrison District should file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and

a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Garrison District should deposit surcharge collections in a separate interest-bearing account.

c. Garrison District should file monthly activity reports with the Commission that include a statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, and a description of the purpose; and invoices supporting each payment.

d. Garrison District should file monthly water loss reports with the Commission.

e. Surcharge proceeds should not be used to reimburse Garrison District for unaccounted-for water loss reduction expenses incurred prior to the date of this Order.

f. Garrison District's surcharge and water loss detection and repair program is subject to annual Commission reviews that will examine the progress of the water loss detection and repair program and expenditures made with surcharge proceeds and consider adjustments to the program and the surcharge amount.

g. Garrison District's failure to comply with any conditions attached to its assessment of the surcharge will result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

7. Garrison District should file a rate application for its water and sewer divisions allocating the employee time between the two divisions using the completed

field employee time analysis on or before June 30, 2025. The field employee time analysis with supporting employee time records shall be filed with Garrison District's rate applications.

8. Garrison District should revise its accounting procedures and internal controls so that proper assignment and allocations of shared expenses are recorded in the original books of entry in all future reporting periods.

IT IS THEREFORE ORDERED that:

1. The adjustments and recommendations contained in this Order are adopted.

2. The water and sewer rates proposed by Garrison District are denied.

3. The water rates set forth in Appendix A to this Order are approved for services rendered by Garrison District on and after the date of this Order.

4. The Phase 1 sewer rates set forth in Appendix B to this Order are approved for services rendered by Garrison District on and after the date of this Order.

5. The Phase 2 sewer rates set forth in Appendix B to this Order are approved for services rendered by Garrison District on and after one year of the date of this Order.

6. The Phase 3 sewer rates set forth in Appendix B to this Order are approved for services rendered by Garrison District on and after two years of the date of this Order.

7. One week prior to the effective date of the Phase 2, and one week prior to the effective date of the Phase 3, sewer rates, Garrison District shall publish notice following the requirements of 807 KAR 5:076, Section 5. The customer notice shall be in the format as set forth in the Appendix attached to the September 2, 2021 Order, and shall contain only the rate comparison being implemented for that rate phase.

8. Within 45 days of publishing the notice required in ordering paragraph number 7, Garrison District shall file proof of notice as required pursuant to 807 KAR 5:076, Section 5(3).

9. Within 20 days of the date of entry of this Order, Garrison District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the water and sewer rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

10. Garrison District is authorized to assess a monthly water surcharge of \$1.73 per meter for 48 months, or until \$88,468 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction efforts as set forth in the Staff Report, subject to the conditions set forth in ordering paragraph 11.

11. The Commission shall open a separate proceeding, Case No. 2021-00419<sup>114</sup> to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

a. Within 120 days of the date of this Order, Garrison District shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Garrison District shall deposit surcharge collections in a separate interest-bearing account. On the 15<sup>th</sup> day of each month for 48 months from the date of

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<sup>114</sup> Case No. 2021-00419, *Electronic Garrison Quincy-Ky-O-Heights Water District's Unaccounted-for Water Loss Reduction Plan, Surcharge and Monitoring* (Ky. PSC Nov.. 22, 2021).

this Order or until all surcharge proceeds are expended, Garrison District shall file with the Commission a monthly activity report that includes a statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, a description of the purpose; and invoices supporting each payment.

c. On the 15<sup>th</sup> day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, Garrison District shall file a monthly water loss report with the Commission.<sup>115</sup>

d. Garrison District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

e. Garrison District shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

f. Garrison District shall debit monthly billings for the surcharge to customers' accounts receivable and credit the contribution account.

g. When Garrison District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

h. One year after the date of entry of this Order and annually thereafter, Garrison District shall file in Case No. 2021-00419 a schedule of the estimated and actual progress of the water loss detection and repair program, and estimated and actual

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<sup>115</sup> The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

expenditures made with surcharge proceeds, for the purpose of evaluating whether adjustments to the program or to the surcharge amount are required.

12. Garrison District's failure to comply with the conditions set forth in ordering paragraph 5 shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

13. Within 20 days of the date of entry of this Order, Garrison District shall submit a written statement that it agrees to implement the revisions to its accounting procedures and internal controls.

14. Within 60 days of the date of entry of this Order, Garrison District shall submit its revised accounting procedures and internal controls for Commission review.

15. Garrison District shall file a rate application for its water and sewer divisions allocating the employee time between the two divisions using the completed field employee time analysis on or before June 30, 2025. The field employee time analysis with supporting employee time records shall be filed with Garrison District's rate applications.

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

By the Commission

ENTERED  
NOV 24 2021 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2021-00094



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00094 DATED NOV 24 2021

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

| <u>Monthly Water Rates</u>                        |             |                |
|---|-------------|----------------|
| <u>5/8- x 3/4-Inch Meter</u>                      |             |                |
| First 2,000 Gallons                               | \$23.12     | Minimum Bill   |
| Next 3,000 Gallons                                | 0.00908     | Per Gallon     |
| Next 5,000 Gallons                                | 0.00759     | Per Gallon     |
| All Over 10,000 Gallons                           | 0.00600     | Per Gallon     |
| <br><u>1-Inch Meter</u>                           |             |                |
| First 10,000 Gallons                              | \$88.33     | Minimum Bill   |
| All Over 10,000 Gallons                           | 0.00600     | Per Gallon     |
| <br><u>2-Inch Meter</u>                           |             |                |
| First 10,000 Gallons                              | \$328.31    | Minimum Bill   |
| All Over 10,000 Gallons                           | 0.00600     | Per Gallon     |
| <br>Bulk Sales                                    | <br>0.00979 | <br>Per Gallon |
| <br><u>Monthly Water Loss Reduction Surcharge</u> | <br>\$ 1.73 | <br>Per Meter  |

Water Nonrecurring Charges

|                                 |    |          |
|---------------------------------|----|----------|
| Connection Charges              | \$ | 11.00    |
| Connection Charges After Hours  | \$ | 41.00    |
| Field Collection Charge         | \$ | 11.00    |
| Late Payment Penalty            | \$ | 7.00     |
| Meter Test Charge               | \$ | 36.00    |
| Reconnection Charge             | \$ | 22.00    |
| Reconnection Charge After Hours | \$ | 52.00    |
| Seasonal Reconnection Charge    | \$ | 11.00    |
| Returned Checks Charge          | \$ | 23.00    |
| Service Call Charge             | \$ | 11.00    |
| Service Call Charge After Hours | \$ | 41.00    |
| Tap-On Fee                      | \$ | 1,325.00 |

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00094 DATED NOV 24 2021

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

Sewer Rates

Monthly Sewer Rates- 3 year Phase In

|                     |         |                      |
|---------------------|---------|----------------------|
|                     | Phase 1 |                      |
| First 2,000 Gallons |         | \$31.90 Minimum Bill |
| Over 2,000 Gallons  |         | 0.01595 per gallon   |
|                     | Phase 2 |                      |
| First 2,000 Gallons |         | \$36.69 Minimum Bill |
| Over 2,000 Gallons  |         | 0.01834 per gallon   |
|                     | Phase 3 |                      |
| First 2,000 Gallons |         | \$42.19 Minimum Bill |
| Over 2,000 Gallons  |         | 0.02109 per gallon   |

Sewer Nonrecurring Charges

|                                 |             |
|---------------------------------|-------------|
| Connection Charges              | \$ 7.00     |
| Connection Charges After Hours  | \$ 38.00    |
| Field Collection Charge         | \$ 6.00     |
| Late Payment Penalty            | \$ 7.00     |
| Reconnection Charge             | \$ 10.00    |
| Reconnection Charge After Hours | \$ 41.00    |
| Returned Checks Charge          | \$ 23.00    |
| Service Call Charge             | \$ 7.00     |
| Service Call Charge After Hours | \$ 38.00    |
| Tap-On Fee                      | \$ 4,725.00 |

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00094 DATED NOV 24 2021

Detailed Pro Forma Income Statement  
Water Division

|  | Test Year<br>Operations | Staff<br>Pro Forma<br>Adjustments | Commission<br>Pro Forma<br>Adjustments | Commission<br>Pro Forma<br>Operations |
|--|-------------------------|-----------------------------------|--|---------------------------------------|
| Operating Revenues                       |                         |                                   |  |                                       |
| Sales of Water                           | \$ 543,541              | \$ (24,175)                       |  | \$ 519,366                            |
| Other Water Revenue                      |                         |                                   |  |                                       |
| Forfeited Discounts                      | -                       | 19,670                            |  | 19,670                                |
| Miscellaneous Service Revenues           | -                       | 3,260                             |  | 3,260                                 |
| Total Operating Revenues                 | 543,541                 | (1,245)                           | -                                      | 542,296                               |
| Operating Expenses                       |                         |                                   |  |                                       |
| Operation and Maintenance Expenses       |                         |                                   |  |                                       |
| Salaries and Wages - Employees           | 191,934                 | (50,066)                          | 25,473                                 | 167,341                               |
| Tap-on Fees                              | -                       | (13,250)                          |  | (13,250)                              |
| Salaries and Wages - Commissioners       | 8,100                   | (1,796)                           |  | 6,304                                 |
| Employee Pensions and Benefits           | 77,825                  | (25,724)                          | 9,356                                  | 61,457                                |
| Purchased Water                          | 42,506                  | (10,111)                          |  | 32,395                                |
| Purchased Power for Pumping              | 36,766                  | (8,746)                           |  | 28,020                                |
| Chemicals                                | 13,705                  | (3,260)                           |  | 10,445                                |
| Materials and Supplies                   | 23,603                  | -                                 |  | 23,603                                |
| Contractual Services - Accounting        | 20,877                  | (4,628)                           |  | 16,249                                |
| Contractual Services - Water Testing     | 3,443                   | -                                 |  | 3,443                                 |
| Contractual Services - Other             | 3,525                   | -                                 |  | 3,525                                 |
| Transportation Expenses                  | 4,494                   | (736)                             |  | 3,758                                 |
| Insurance - General Liability & Other    | 10,216                  | (2,195)                           |  | 8,021                                 |
| Insurance - Workers Compensation         | 4,028                   | (1,442)                           | 464                                    | 3,051                                 |
| Misc. Expense                            | 129,858                 | (84,895)                          |  | 44,963                                |
| Total Operation and Maintenance Expenses | 570,880                 | (206,849)                         | 35,293                                 | 399,324                               |
| Depreciation                             | 101,505                 | 12,861                            |  | 114,366                               |
| Taxes Other Than Income                  | 20,083                  | (9,230)                           | 1,949                                  | 12,802                                |
| Total Operating Expenses                 | 692,468                 | (203,218)                         | 37,242                                 | 526,493                               |
| Income Available to Service Debt         | \$ (148,927)            | \$ 201,973                        | \$ (37,242)                            | \$ 15,803                             |

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00094 DATED NOV 24 2021

Detailed Pro Forma Income Statement  
Sewer Division

|  | Test Year<br>Operations | Staff<br>Pro Forma<br>Adjustments | Commission<br>Pro Forma<br>Adjustments | Commission<br>Pro Forma<br>Operations |
|--|-------------------------|-----------------------------------|--|---------------------------------------|
| Operating Revenues                           |                         |                                   |  |                                       |
| Sewer Service                                | \$ 141,531              | \$ 7,715                          |  | \$ 149,246                            |
| Other Sewer Revenues                         |                         | 6,874                             |  | 6,874                                 |
| <br>Total Operating Revenues                 | <br>141,531             | <br>14,589                        | <br>-                                  | <br>156,120                           |
| Operating Expenses                           |                         |                                   |  |                                       |
| Operation and Maintenance Expenses           |                         |                                   |  |                                       |
| Collection - Labor, Materials & Expenses     | 52,692                  | 26,376                            | (25,473)                               | 53,595                                |
| Tap-on (labor & Materials)                   | -                       | (4,725)                           |  | (4,725)                               |
| Salaries and Wages - Commissioners           | -                       | 1,796                             |  | 1,796                                 |
| Employee Pensions and Benefits               | -                       | 29,041                            | (9,356)                                | 19,685                                |
| Purchased Power for Pumping                  | 21,892                  | -                                 |  | 21,892                                |
| Contractual Services                         | -                       | 4,628                             |  | 4,628                                 |
| Treatment & Disposal                         | 32,376                  | -                                 |  | 32,376                                |
| Maintenance Treatment & Disposal             | 2,022                   | -                                 |  | 2,022                                 |
| Transportation Expenses                      | -                       | 736                               |  | 736                                   |
| Insurance - General Liability & Other        | -                       | 2,195                             |  | 2,195                                 |
| Insurance - Workers Compensation             | -                       | 1,442                             | (464)                                  | 977                                   |
| Office Supplies & Other Expenses             | 2,432                   | 3,835                             |  | 6,267                                 |
| <br>Total Operation and Maintenance Expenses | <br>111,414             | <br>65,324                        | <br>(35,293)                           | <br>141,445                           |
| Depreciation                                 | 77,202                  | 39,148                            |  | 116,350                               |
| Taxes Other Than Income                      |                         | 6,049                             | (1,949)                                | 4,100                                 |
| <br>Total Operating Expenses                 | <br>188,616             | <br>110,521                       | <br>(37,242)                           | <br>261,894                           |
| <br>Income Available to Service Debt         | <br>\$ (47,085)         | <br>\$ (95,932)                   | <br>\$ 37,242                          | <br>\$ (105,774)                      |

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