

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SHARPSBURG)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2022-00348
PURSUANT 807 KAR 5:076)	

ORDER

On October 28, 2022, Sharpsburg Water District (Sharpsburg District) filed its application with the Commission, requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. Sharpsburg District filed this proceeding in compliance with the final Orders in Case Nos. 2021-00189¹ and 2022-00273.²

In its application, Sharpsburg District requested an increase in annual revenues from water sales of \$161,122, or an 18.07 percent increase to pro forma present rate water sale revenues.³

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated November 22, 2022, which, among other things, required the Commission Staff to file a report containing its recommendations regarding Sharpsburg District's application. Sharpsburg District responded to two requests for information from Commission Staff.

¹ Case No. 2021-00189, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (Ky. PSC May 27, 2021), at 6, ordering paragraph 5.

² Case No. 2022-00273, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (Ky. PSC Sept. 13, 2022) at 6, ordering paragraph 5.

³ Application, Attachment 4, 04_SAO_w_Attachment.pdf.

Commission Staff issued its Report (Commission Staff's Report) on March 27, 2023, summarizing its findings and recommendations regarding Sharpsburg District's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that Sharpsburg District's adjusted test-year operations support an overall revenue requirement of \$1,074,203, and that an annual revenue increase of \$159,111, or 17.64 percent,⁴ is necessary to generate the overall revenue requirement. In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

On March 20, 2023, Sharpsburg District filed its response to Commission Staff's Report. Sharpsburg District stated that it did not agree with Commission Staff's removal of certain labor expenses from Nonrecurring Charges; however, Sharpsburg District stated that it would not contest the adjustment in this case.⁵ Sharpsburg District concurred with the findings presented regarding water rates and requested that the Commission approve the rates shown in the Appendix to Commission Staff's Report as soon as possible.⁶ With its response, Sharpsburg District waived its right to request an informal conference or hearing in this case.⁷ The case now stands submitted for a decision by the Commission.

⁴ Commission Staff's Report at 26.

⁵ Sharpsburg District's Response to Commission Staff's Report (filed Mar. 30, 2023), Item 1.

⁶ Sharpsburg District's Response to Commission Staff's Report, Item 2.

⁷ Sharpsburg District's Response to Commission Staff's Report, Item 3.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Sharpsburg District is allowed to charge its customers "only fair, just and reasonable rates."⁸ Further, Sharpsburg District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

KRS 278.390 provides that Commission Orders continue in force until the expiration of time, if any, established in an order, or until revoked or modified by the Commission, unless the order is suspended or vacated in whole or in part by a state or federal court.

BACKGROUND

Sharpsburg District is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 1,538 residential and 22 commercial customers in Bath and Nicholas counties, Kentucky.⁹ Sharpsburg District purchases its water from Bath County Water

⁸ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

⁹ 2021 Annual Report at 49 and 12.

District and the city of Carlisle.¹⁰ A review of the Commission’s records indicates this is Sharpsburg District’s first alternative rate adjustment since May 6, 2010.¹¹

UNACCOUNTED-FOR WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. As noted in the Commission Staff’s Report, Sharpsburg District’s test-year water loss was 23.06 percent.¹² Accordingly, Staff reduced test-year expenses by \$33,184 to account for the 8.06 percent excess water loss.¹³ At a 23.06 percent water loss, the annual cost of water in excess of 15 percent is \$33,184, and the total cost of water loss to Sharpsburg District is \$94,942 as calculated below.

	Purchased Water	Purchased Power	Total
Test Year Water Purchase and Pumping Costs	\$ 391,158	\$ 20,560	\$ 411,718
Multiplied by: Test Year Water Loss	23.06%	23.06%	23.06%
Total Water Loss	<u>\$ 90,201</u>	<u>\$ 4,741</u>	<u>\$ 94,942</u>
Test Year Water Purchase and Pumping Costs	\$ 391,158	\$ 20,560	\$ 411,718
Multiplied by: Water Loss in excess of 15 %	8.06%	8.06%	8.06%
Cost of Water Loss in Excess of the 15% Limit	<u>\$ 31,527</u>	<u>\$ 1,657</u>	<u>\$ 33,184</u>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Sharpsburg District to pursue reasonable actions to reduce its water loss. Failure by Sharpsburg District to make significant progress toward reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

¹⁰ 2021 Annual Report at 54 and 57.

¹¹ Case No. 2010-00128, *Application of Sharpsburg Water District for an Adjustment of Water Rates* (Ky. PSC May 6, 2010).

¹² Commission Staff’s Report at 2–3.

¹³ Commission Staff’s Report at 3.

TEST PERIOD

The calendar year ended December 31, 2021, was used as the test year to determine the reasonableness of Sharpsburg District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Sharpsburg District's pro forma income statement as follows:¹⁴

	<u>Test Year Operations</u>	<u>Pro Forma Adjustments</u>	<u>Commission Staff Report Pro Forma</u>
Total Operating Revenues	\$ 905,539	\$ 32,602	\$ 938,141
Utility Operating Expenses	<u>1,011,318</u>	<u>(31,607)</u>	<u>979,711</u>
Net Utility Operating Income	(105,779)	64,209	(41,570)
Connection Fees Income	24,500	(24,500)	-
Interest and Dividend Income	<u>191</u>	<u>-</u>	<u>191</u>
Total Utility Operating Income	<u>\$ (81,088)</u>	<u>\$39,709</u>	<u>\$ (41,379)</u>

REVIEW AND MODIFICATIONS TO COMMISSION
STAFF'S RECOMMENDATIONS

Sharpsburg District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the findings and recommendations contained in the Commission Staff's Report and as shown in the following pro forma. The Commission has no further modifications.

¹⁴ Commission Staff's Report at 9.

	Test Year	Commission Staff's Proposed Adjustments	Commission's Pro Forma Adjustments	Pro Forma
Operating Revenues				
Total Metered Water Sales	\$ 864,045	\$ 58,710		\$ 899,515
Bulk Loading Stations	2,532	(284)		2,248
Total Normalized Revenues from Sales	866,577	35,186		901,763
Other Water Revenues				
Forfeited Discounts		23,240		23,240
Misc. Service Revenues				
Other Water Revenues	38,962	(24,755)		
Nonrecurring Charges		(1,069)		13,138
Total Operating Revenues	905,539	32,602	-	938,141
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	169,324	33,951		
		(8,868)		
		(8,190)		186,217
Salaries and Wages - Officers	41,767	(33,951)		
		709		8,525
Employee Pensions and Benefits	23,432	3,616		27,048
Purchased Water	372,328	18,830		
		(31,527)		359,631
Purchased Power	20,560	(1,657)		18,903
Materials and Supplies	101,047	(19,110)		81,937
Contractual Services- Accounting	6,450			6,450
Rental of Equipment	2,350			2,350
Transportation Expenses	-	2,979		2,979
Insurance- Other	22,265			22,265
Miscellaneous Expense	73,995			73,995
Total Operation and Maintenance Expenses	833,518	(43,218)	-	790,300
Depreciation	133,792	21,668		155,460
Taxes Other Than Income	44,008	(25,581)		
		15,524		33,951
Utility Operating Expenses	1,011,318	(31,607)	-	979,711
Net Operating Income	(105,779)	32,602	-	(41,570)
Connection Fees Income	24,500	(24,500)		-
Interest and Dividend Income	191			191
Income Available to Service Debt	\$ (81,088)	\$ 8,102	\$ -	\$ (41,379)

REVENUE REQUIREMENTS

Billing Analysis. Sharpsburg District provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year ended December 31, 2021. Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$901,763 for all retail customers is an accurate representation of

the normalized test-year revenue from water sales. In the Commission Staff's Report, Commission Staff recommended an increase to Sharpsburg District's test-year Water Sales Revenue of \$58,710 and a decrease to Bulk Loading Stations Revenues of \$284.¹⁵ The Commission finds that this adjustment is reasonable because an examination of Sharpsburg District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

Forfeited Discounts. In the Commission Staff's Report, Commission Staff recommended reducing Sharpsburg District's Total Metered Water Sales and increasing Forfeited Discounts by \$23,240¹⁶ to reflect the reclassification of late payment revenue from Total Metered Water Sales to Forfeited Discount. The Commission finds that this adjustment is a known and measurable change to Forfeited Discounts and to Total Metered Water Sales, is reasonable, and should be accepted.

Other Water Revenues. In the Commission Staff's Report, Commission Staff recommended a decrease to Sharpsburg District's Other Water Revenue to reconcile the misclassified asset sales and Utility Tax Income, as well as the reconciliation of the Reconnect Fees and the Returned Check Charges,¹⁷ in which the adjustment total decreased Other Water Revenues by \$24,755.¹⁸ The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable, and should be accepted.

¹⁵ Commission Staff's Report at 10–11, Adjustment A.

¹⁶ Commission Staff's Report at 11–12, Adjustment B.

¹⁷ Commission Staff's Report at 13, Adjustment C.

¹⁸ Commission Staff's Report at 12–13, Adjustment C.

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff recommended reducing Sharpsburg District's Other Water Revenues by \$1,069 to reflect the removal of estimated labor expenses from the nonrecurring charges.¹⁹ In its response to Commission Staff's Report, Sharpsburg District disagreed with the removal of the labor expense from its nonrecurring charges but also indicated that it did not wish to contest the adjustments.²⁰

The Commission agrees with the Commission Staff's Report, which is consistent with recent Commission decisions, that labor expenses resulting from work during normal business hours should not be recovered through nonrecurring charges.²¹ The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred and recovered in customer rates as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours. Only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. For the reasons discussed above, the estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges as proposed by Commission Staff and a corresponding reduction to Other Operating Revenues should be made to reflect the changes in the nonrecurring charges. Thus, the Commission finds the revised nonrecurring charges

¹⁹ Commission Staff's Report at 13–14, Adjustment D.

²⁰ Sharpsburg District's Response to PSC Staff Report, Item 1.

²¹ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment*, (Ky. PSC Nov. 6, 2020), Order at 19–20.

described in the Appendix and the decrease of \$1,069 to Other Water Revenues to be reasonable.²²

Salaries and Wages Reclassification. In the Commission Staff's Report, Commission Staff recommended an increase to Sharpsburg District's Salaries and Wages – Employees and a decrease to Salaries and Wages – Officers of \$33,951²³ to account for the incorrect reporting of a portion of the Manager's salary recorded in Salaries and Wages – Officers. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages – Employees and Salaries and Wages – Officers, is reasonable, and should be accepted.

Salaries and Wages – Employees. In the Commission Staff's Report, Commission Staff recommended a decrease to Sharpsburg's Salaries and Wages – Employees of \$8,868²⁴ to reflect the normalization of employee salaries, part-time hours worked, and additional compensation paid. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages – Employees, is reasonable, and should be accepted.

²² See 807 KAR 5:001E, Section 16.1.(a); 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 Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); 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).

²³ Commission Staff's Report at 14–15, Adjustment E.

²⁴ Commission Staff's Report at 15–16, Adjustment F.

Expenses Related to Meter Installation. In the Commission Staff's Report, Commission Staff recommended the Commission accept Sharpsburg District's proposed adjustment to decrease test-year Salaries and Wages – Employees by \$8,190, and Materials and Supplies by \$19,110²⁵ to reflect the capitalization of costs incurred in installation of 50 new water connections. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages – Employees and Materials and Supplies, is reasonable, and should be accepted.

Salaries and Wages – Officers. In the Commission Staff's Report, Commission Staff recommended an increase to Sharpsburg District's Salaries and Wages – Officers of \$709²⁶ to reflect the normalization of the test-year commissioner's salaries. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages – Officers, is reasonable, and should be accepted.

Employee Pensions and Benefits – Insurance. In Commission Staff's Report, Commission Staff recommended an increase to Sharpsburg District's Employee Pensions and Benefits of \$3,616²⁷ to reflect the adjustment of single insurance premiums paid and Medicare Reimbursements paid by Sharpsburg District from 100 percent to 78 percent to be consistent Commission precedent regarding premiums paid for health benefits. The Commission finds that this adjustment is a known and measurable change to Employee Pensions and Benefits, is reasonable, and should be accepted.

²⁵ Commission Staff's Report at 16–17, Adjustment G.

²⁶ Commission Staff's Report at 17–18, Adjustment H.

²⁷ Commission Staff's Report at 18–19, Adjustment I.

Purchased Water Expense. In Commission Staff's Report, Commission Staff recommended an increase to Sharpsburg District's Purchased Water Expense of \$18,830²⁸ to reflect the normalization of Purchased Water Expense. The Commission finds that this adjustment is a known and measurable change to Purchased Water, is reasonable, and should be accepted.

Excess Water Loss. Sharpsburg Water's test-year water loss was 23.06 percent. Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes, unless the Commission finds an alternative level is reasonable. In the Commission Staff's Report, Commission Staff recommended a decrease to Sharpsburg District's Purchased Water Expense by \$31,527 and Purchased Power Expense by \$1,657²⁹ to reflect the costs associated with the production of water in excess of 15 percent water loss. The Commission finds that this adjustment is a known and measurable change to Purchased Water Expense and Purchased Power Expense, is reasonable, and should be accepted.

Transportation Expense. In the Commission Staff's Report, Commission Staff recommended an increase to Sharpsburg District's Transportation Expense of \$2,979³⁰ to reflect the reimbursement for gas receipts for employee's person truck usage. The Commission finds that this adjustment is a known and measurable change to Transportation Expense, is reasonable, and should be accepted.

²⁸ Commission Staff's Report at 19–20, Adjustment J.

²⁹ Commission Staff's Report at 21, Adjustment K.

³⁰ Commission Staff's Report at 21–22, Adjustment L.

Depreciation. In the Commission Staff's Report, Commission Staff recommended an increase to Sharpsburg District's Depreciation Expense of \$21,668³¹ to reflect the adjustment of the useful life of capital assets to the midpoint of the National Association of Regulatory Utility Commissioners' (NARUC) depreciation study titled *Depreciation Practices for Small Water Utilities* (NARUC Study). The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is reasonable, and should be accepted.

Taxes other than Income – Utility and Sales Tax. In Commission Staff's Report, Commission Staff recommended a decrease to Sharpsburg District's Taxes Other than Income Expense by \$25,581³² to account for the removal of Utility and Sales Tax from Taxes other than Income. Since Sharpsburg functions as a pass through entity, it should not recover the taxes. The Commission finds that this adjustment is a known and measurable change to Taxes other than Income, is reasonable, and should be accepted.

Taxes Other than Income – FICA. In Commission Staff's Report, Commission Staff recommended an increase to Sharpsburg District's Taxes Other than Income Expense by \$15,524³³ to account for the net effect of the decreased contribution amount of pro forma wage adjustment and the inclusion of pro forma Officers Salary contributions, multiplied by the FICA percentage rate of 7.65 percent. The Commission finds that this adjustment, is a known and measurable change to Taxes Other than Income, is reasonable, and should be accepted.

³¹ Commission Staff's Report at 22–23, Adjustment M.

³² Commission Staff's Report at 23, Adjustment N.

³³ Commission Staff's Report at 24, Adjustment O.

Nonutility Income. In Commission Staff’s Report, Commission Staff recommended a decrease to Sharpsburg District’s Nonutility Income by \$24,500³⁴ to account for the removal of revenues collected from water connections. Since the Uniformed System of Accounts requires water tap-on fees collected to be recorded as proceeds from Capital Contributions. The Commission finds that this adjustment, is a known and measurable change to Nonutility Income, is reasonable, and should be accepted.

Based upon the Commission’s findings discussed above, the following table summarizes Sharpsburg District’s adjusted pro forma:

	Commission Staff’s Report Pro Forma	Commission Adjustments	Final Pro Forma
Total Operating Revenues	\$938,141	-	\$938,141
Utility Operating Expenses	979,711	-	979,711
Net Utility Operating Income	(41,570)	-	(41,570)
Interest and Dividend Income	191	-	191
Total Utility Operating Income	\$(41,379)	-	\$(41,379)

OVERALL REVENUE REQUIREMENT

Based upon the Commission’s findings and determinations herein, Sharpsburg District requires an increase in revenues from water sales of \$159,111, or 17.64 percent above present water rate revenues as shown below. This increase is required for Sharpsburg District to remain operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 979,711
Plus: Avg. Annual Principal and Interest Payments	78,743
Additional Working Capital	15,749
	<hr/>
Overall Revenue Requirement	1,074,203

³⁴ Commission Staff’s Report at 24–25, Adjustment P.

Less: Other Operating Revenues	(13,138)
Interest Income	<u>(191)</u>
Revenue Required from Water Sales	1,060,874
Less: Revenue from Water Sales at Present Rates	<u>(901,763)</u>
Required Revenue Increase	<u>\$ 159,111</u>
Percentage Increase	<u>17.64%</u>

RATE DESIGN

Sharpsburg District proposed to increase all its monthly retail water service rates evenly across the board by approximately 18.07 percent. Sharpsburg District has not performed a cost of service study (COSS). Sharpsburg District stated that it did not complete a COSS because there have not been any material changes in customer usage patterns to warrant a COSS.³⁵

The Commission has previously found 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. In the Commission Staff Report, Commission Staff followed the method previously accepted by Sharpsburg District and allocated Commission Staff's calculated revenue increase across the board to Sharpsburg District's monthly retail water service rates. Sharpsburg District accepted Commission Staff's findings and requested approval of the recommended rates and charges listed in the Commission Staff's Report.³⁶

³⁵ Commission Staff's Report at 5.

³⁶ Sharpsburg District's Response to Commission Staff's Report, paragraph 2.

The rates set forth in the Appendix 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 \$1,060,874 Revenue Required from Water Sales, an approximate 17.64 percent over normalized test-year water sales of \$901,763. The monthly bill of a typical residential customer using 4,000 gallons of water will increase from \$40.86 to \$47.99, an increase of \$7.13, or approximately 17.45 percent.

RATE CASE FREQUENCY

In Case No. 2019-00041 and the resulting investigative report, the Commission discussed the problems that can occur when utilities avoid a review of their financial records.³⁷ A key recommendation from that investigative report was that water utilities should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.³⁸ In light of its findings in Case No. 2019-00041, the Commission noted, in Case No. 2021-00189,³⁹ that Sharpsburg District had not sought a base rate adjustment since 2010.⁴⁰ Because it had been more than 11 years since the Commission last reviewed Sharpsburg District's rate sufficiency and financial records, and since Sharpsburg District consistently had water loss in excess of the 15 percent limit, the Commission ordered Sharpsburg District to file an application for

³⁷ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019), Order.

³⁸ Case No. 2019-00041, Nov. 22, 2019 Order.

³⁹ Case No. 2021-00189, June 3, 2022 Order.

⁴⁰ Case No. 2010-00128, May 6, 2010 Order.

general or an alternative rate adjustment within one year of the date of filing of the Order in Case No. 2021-00189.⁴¹

The Commission recommends that Sharpsburg District conduct internal financial reviews on an annual basis to ensure that its water rates are sufficient. The Commission also recommends that Sharpsburg's board of commissioners consider filing periodic rate cases with the Commission every three to five years and implement a written policy to that effect to maintain a regular review of the utility's finances. These are good practices to ensure that there is not a 12-year gap between base rate cases in the future. In addition, the Commission recommends that Sharpsburg develop a water loss reduction plan to lower its water loss below 15 percent.

SHARPSBURG DISTRICT'S COMPLIANCE WITH COMMISSION ORDER

The final Orders in Case Nos. 2021-00189⁴² and 2022-00273⁴³ required Sharpsburg District to file an application by May 27, 2022.⁴⁴ On April 20, 2022, and May 5, 2022, Sharpsburg District filed motions in Case 2021-00189, requesting a six-month extension to file its application. As a basis for those motions, Sharpsburg District stated that it would rely upon its 2021 audit in preparing its rate case application, but the 2021 audit had not yet been completed. As a further basis, Sharpsburg District also stated that it contacted Kentucky Rural Water Association (KRWA) on April 11, 2022, and that, due

⁴¹ Case No. 2021-00189, June 3, 2022 Order at 5, ordering paragraph 8.

⁴² Case No. 2021-00189, May 27, 2021 Order at 6, ordering paragraph 5.

⁴³ Case No. 2022-00273, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (Ky. PSC Sept. 13, 2022) at 6, ordering paragraph 5.

⁴⁴ Case No. 2021-00189, May 27, 2021 Order at 6, ordering paragraph 5.

to KRWA's workload, KRWA would need six months to prepare and complete the application.

On June 3, 2022, in Case No. 2021-00189, the Commission denied Sharpsburg District's motions for an extension to file its application and ordered Sharpsburg District to file its application as soon as possible.⁴⁵ In denying the motions, the Commission noted that an alternative rate filing (ARF) application is based on a utility's annual report, and not an audit. The Commission found Sharpsburg District in violation of a Commission Order, explaining that the Sharpsburg District's failure to file an ARF application as soon as possible may result in the Commission assessing a civil penalty.⁴⁶ Sharpsburg District's application was filed approximately five months after the initial May 27, 2022 deadline established in Case No. 2021-00189.

Based upon the finding that Sharpsburg District was in violation of the Commission's May 27, 2021 Order in Case No. 2021-00189, the Commission finds that a separate proceeding should be initiated for Sharpsburg District's commissioners and manager to show cause why they should not be assessed a civil penalty for their violation of the Commission's May 27, 2021 Order in Case No. 2021-00189. Under KRS 278.990(1), upon a finding of a willful violation of a Commission Order, the Commission may assess a civil penalty against a utility's officer, agent, or employee in an amount not less than \$25 or more than \$2,500 per occurrence per officer, agent, and employee.

⁴⁵ Case No. 2021-00189, June 3, 2022 Order at 2, ordering paragraph 2.

⁴⁶ Case No. 2021-00189, June 3, 2022 Order at 2, ordering paragraph 2.

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report are supported by the evidence of record and are reasonable. The Commission has historically used a Debt Service Coverage (DSC) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Therefore, applying the DSC method to Sharpsburg District's pro forma operations results in an Overall Revenue Requirement of \$1,074,203, a required revenue from water sales of \$1,060,874, and an increase in revenue from water sales of \$159,111, or 17.64 percent.

The Commission finds that allocating the calculated revenue increase across the board to Sharpsburg District's monthly water service rates to be fair, just and reasonable.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Sharpsburg District are denied.
3. The rates set forth in the Appendix to this Order are approved for services rendered by Sharpsburg District on and after the date of service of this Order.
4. The Connection Fees and Nonrecurring Charges set forth in the Appendix to this Order are approved for service rendered by Sharpsburg District on or after the date of service of this Order.
5. Within 20 days of the date of service of this Order, Sharpsburg District shall file with this Commission, using the Commission's electronic Tariff Filing System, new

tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order

6. Sharpsburg District shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

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

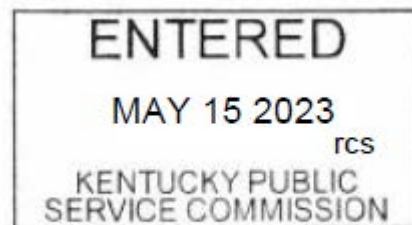
[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00348 DATED MAY 15 2023

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

Monthly Water Rates

5/8- X 3/4-Inch Meter

First	2,000 Gallons	\$31.65	Minimum Bill
Next	3,000 Gallons	0.00817	Per Gallon
Next	5,000 Gallons	0.00740	Per Gallon
Over	10,000 Gallons	0.00711	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$56.27	Minimum Bill
Next	5,000 Gallons	0.00740	Per Gallon
Over	10,000 Gallons	0.00711	Per Gallon

2-Inch Meter

First	16,000 Gallons	\$136.09	Minimum Bill
Over	16,000 Gallons	0.00711	Per Gallon

Bulk Loading Station

0.01089	Per Gallon
---------	------------

Nonrecurring Charges

Service Call After Hours	\$52.00
Field Collection Charge	\$17.00
Late Payment Penalty	10%
Meter Re-read Charge	\$17.00
Meter Test Charge	\$89.00
Service Call/ Investigation	\$17.00
Reconnect Charge	\$17.00
Returned Check Charge	\$5.00
5/8- X 3/4-Inch Tap-On Charge	\$1,130.00
All Meters larger than 5/8- X 3/4-Inch	Actual Cost

*Alan Vilines
Kentucky Rural Water Association
Post Office Box 1424
1151 Old Porter Pike
Bowling Green, KENTUCKY 42102-1424

*Ms. Gayle Haney
Manager/Distribution Operator
Sharpsburg Water District
16 East Mill Street
P. O. Box 248
Sharpsburg, KY 40374

*Sharpsburg Water District
16 East Mill Street
P. O. Box 248
Sharpsburg, KY 40374