

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MCCREARY	)	CASE NO.
COUNTY WATER DISTRICT FOR AN	)	2021-00301
ALTERNATIVE RATE ADJUSTMENT	)	

ORDER

On September 24, 2021, McCreary County Water District (McCreary District) tendered its application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. By letter dated September 27, 2021, the Commission rejected the application for filing deficiencies. The application was deemed filed as of September 27, 2021, the date McCreary District cured its filing deficiencies. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated October 8, 2021. In its application, McCreary District determined that its water division could justify a revenue increase of \$348,505, or 8.70 percent.<sup>1</sup> McCreary District requested an increase of \$174,252, or 4.35 percent.<sup>2</sup>

On November 11, 2021, McCreary District submitted its motion requesting additional time to respond to Commission Staff's First Request for Information (Staff's First Request). By its Order dated November 23, 2021, the Commission granted McCreary District's motion and amended the procedural schedule to extend the remaining deadlines. On January 3, 2022, McCreary District submitted its second motion requesting

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<sup>1</sup> Application, Exhibit D, Revenue Requirement Calculation – Debt Service Coverage Method.

<sup>2</sup> Application at 3, paragraph 14.

additional time to respond to Commission Staff's Second Request for Information (Staff's Second Request), and indicated it waived its right to place the rates into effect subject to refund if the Commission did not issue a final Order prior to the March 25, 2022 suspension date.<sup>3</sup> On January 6, 2022, the Commission issued an Order granting McCreary District's second motion for an extension of time and again amended the procedural schedule to, among other things, extend the issuance date of the Commission Staff Report from January 31, 2022 to March 11, 2022. Because the date to file the Commission Staff Report had to be extended and allowing the required time for McCreary District to file comments on the Commission Staff Report, the Commission could not issue a final Order by the suspension date of March 25, 2022.

On March 11, 2022, Commission Staff issued the Commission Staff's Report. On March 14, 2022, McCreary District submitted a motion requesting an extension of time to file its written comments to the Commission Staff Report. In the motion, McCreary District argued that granting the extension would not impair the Commission's ability to enter a final Order by the statutory date of July 27, 2022. McCreary District reiterated that it would not place the proposed rates into effect subject to refund before the Commission entered a final Order. On March 23, 2022, the Commission granted McCreary District's motion, establishing an April 4, 2022 procedural due date for McCreary District to file its comments on the Commission Staff Report. On April 4, 2022, McCreary District filed its comments in response to the Commission Staff's Report (Response to Commission Staff's Report).

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<sup>3</sup> Commission regulation 807 KAR 5:076, Section 7, suspends the proposed rates for six months from the date of filing of the application. If the Commission has not issued an order within six months from the date of filing the application, a utility may place the proposed rates in effect subject to refund upon written notice to the Commission. In accordance with KRS 278.190(3), the Commission must enter an Order no later than ten months after the date of filing the application.

To clarify McCreary District's comments on the Commission Staff Report, Commission Staff issued its Third Request for Information on April 21, 2022 (Staff's Third Request), and McCreary District responded to Staff's Third request on May 2, 2022.

#### 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, McCreary District is allowed to charge its customers "only 'fair, just and reasonable rates.'"<sup>4</sup> Further, McCreary District bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

#### UNACCOUNTED FOR 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 the total water produced and purchased, excluding water consumed by a utility in its own operations. Based upon the percentage of other water consumed by the utility in its 2020

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<sup>4</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).

Annual Report Water Division, McCreary District's unaccounted-for water loss is 13.53 percent.<sup>5</sup> The cost of McCreary District's total water loss is \$58,632.<sup>6</sup>

BACKGROUND

McCreary District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 6,259 residential, commercial, industrial, and public authority customers in McCreary County, Kentucky.<sup>7</sup> McCreary District's sewer division owns and operates sewage collection and treatment facilities in McCreary County, Kentucky that provides sewer service to approximately 1,144 residential, commercial, industrial, and public authority customers.<sup>8</sup> In the final Order in Case No. 2020-00151,<sup>9</sup> the Commission ordered McCreary District to file a general rate adjustment or file an alternative rate filing by June 26, 2021, to ensure that its rates were sufficient. The Commission ordered the rate filing after observing that McCreary District had avoided Commission review of its financial records and operational structure for more than

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<sup>5</sup> *Annual Report of McCreary District Water Division to the Public Service Commission for the Year Ended December 31, 2020* (2020 Annual Report Water Division) at 57.

<sup>6</sup>

	Purchased Power	Chemicals	Total
Pro Forma Cost of Water Production	\$ 300,591	\$ 132,726	\$ 433,317
Multiplied by: Test-Year Water Loss Percentage	-13.53%	-13.53%	-13.53%
Total Cost of Line Loss	\$ (40,668)	\$ (17,958)	\$ (58,632)

<sup>7</sup> 2020 Annual Report Water Division at 12 and 49.

<sup>8</sup> *Annual Report of McCreary District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2020* at 9 and 25.

<sup>9</sup> See Case No. 2020-00151, *Electronic Application of the McCreary County Water District to Issue Securities in the Approximate Principal Amount of \$1,702,000 for the Purpose of Refunding Certain Outstanding Obligations of the District and Refinancing of a Short Term Obligation Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC June 26, 2020), ordering paragraph 5.

40 years by seeking to increase its rates only as part of financing cases through the United States Department of Agriculture Rural Development or in conjunction with an application for a Certificate of Public Convenience and Necessity.<sup>10</sup> In the final Order for Case No. 2020-00399,<sup>11</sup> the Commission reiterated its finding that McCreary District was required to file an application by June 25, 2021, for a general rate adjustment, which includes financial data for both its sewer and water divisions pursuant to KRS 278.190 and 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 to ensure that there is no cross-subsidization of rates between the sewer and water operating divisions. In the final Order in Case No. 2021-00021,<sup>12</sup> the Commission once again ordered McCreary District to file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 by June 26, 2021, to ensure its revenue is sufficient to support adequate and reliable service. In that Order, the Commission discussed its findings in Case No. 2019-00041,<sup>13</sup> and noted that a key general recommendation resulting from that investigation was that water utilities should

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<sup>10</sup> Case No. 2020-00151, at 2.

<sup>11</sup> See Case No. 2020-00399, *Electronic Application of McCreary County Water District for Authorization to Execute an Assistance Agreement with the Kentucky Infrastructure Authority and for a Certificate of Public Convenience and Necessity to Construct the Sanitary Sewer Collection System Expansion Phase 1 Project* (Ky. PSC Mar. 11, 2021).

<sup>12</sup> Case No. 2021-00021, *Electronic Application of McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Feb. 22, 2021), ordering paragraph 16.

<sup>13</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

monitor the sufficiency of base rates closely and, in general, apply for base rate adjustments on a more frequent basis.

In its application, McCreary District determined that it could justify a revenue increase for its water division of \$348,504 or 8.70 percent.<sup>14</sup> However, citing the 12.50 percent rate increase that was implemented due to the issuance of securities to construct a water system improvement project in Case No. 2021-00021<sup>15</sup> and the hardship an additional 8.70 percent increase would place upon its customers with incomes at or below the federal poverty level, McCreary District limited its request to a revenue increase of \$174,252, or 4.35 percent.<sup>16</sup>

As shown in the table below for a typical residential customer using 4,000 gallons of water per month, the requested phase-one rates would increase the monthly bill by \$0.89, from \$41.00 to \$41.89, or approximately 2.17 percent. The requested phase-two rates would increase the monthly bill of a typical residential customer by \$0.89, from \$41.89 to \$42.78, or approximately 2.12 percent. The overall two-year phase-in would result in the average monthly residential bill increasing from \$41.00 to \$42.78, an increase of \$1.78 or 4.34 percent.

Usage Increments	Average Bill	Existing Rates		Phase 1 Rates		Phase 2 Rates	
		Rates	Bills	Rates	Bills	Rates	Bills
First (Min. Bill)	2,000	\$ 22.50	\$ 22.50	\$ 22.99	\$ 22.99	\$ 23.48	\$ 23.48
Over	2,000	\$ 0.00925	18.50	\$ 0.00945	18.90	\$ 0.00965	19.30
Average Bills	4,000		<u>\$ 41.00</u>		<u>\$ 41.89</u>		<u>\$ 42.78</u>
Increase in Average Bill					<u>\$ 0.89</u>		<u>\$ 0.89</u>
Percentage Increase in Average Bill					<u>2.17%</u>		<u>2.12%</u>

<sup>14</sup> Application, Exhibit D, Revenue Requirement Calculation – Debt Service Coverage Method.

<sup>15</sup> Application at 3; Case No. 2021-00021, (Ky. PSC Feb. 22, 2021), final Order.

<sup>16</sup> Application at 3, paragraph 14.

The Commission Staff's Report summarized Commission Staff's recommendations. Commission Staff determined that McCreary District's water division required an Overall Revenue Requirement of \$4,454,607.<sup>17</sup> To achieve Commission Staff's Overall Revenue Requirement, would require McCreary District to increase its annual revenue from water service by \$168,398, or 4.08 percent.<sup>18</sup> Commission Staff recommended that water service rates not be phased-in.

In its Response to the Commission Staff's Report, McCreary District accepted the Commission Staff's Report with exceptions to the billing analysis, miscellaneous service revenues, employee benefits, materials and supplies, depreciation, payroll taxes, PSC assessment, debt service calculation, cost allocation, and nonrecurring charges. McCreary District disagreed with Commission Staff's billing analysis adjustment, alleging errors in Commission Staff's adjustment calculations. McCreary District asserted that Commission Staff failed to address the adjustment to remove misclassified Fibrotec revenues, and disagreed with excluding the salaries paid to the members of its board of commissioners from Commission Staff's calculation of Federal Insurance Contributions Act (FICA) taxes.<sup>19</sup> McCreary District also took exception to Commission Staff's recommendation to remove labor costs in its nonrecurring charges.<sup>20</sup> McCreary District further requested the Commission include the debt service payments for its two March 2022 debt issuances in its revenue requirement calculation.<sup>21</sup>

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<sup>17</sup> Commission Staff's Report at 4.

<sup>18</sup> Commission Staff's Report at 5.

<sup>19</sup> Response to Commission Staff's Report at 1-5.

<sup>20</sup> Response to Commission Staff's Report at 6-7.

<sup>21</sup> Response to Commission Staff's Report at 5-6.

With its comments, McCreary District requested the Commission find its proposed shared cost allocation rules are adequate and reasonable, and allow McCreary District to adopt these rules for financial reporting and ratemaking purposes. McCreary District also requested that the Commission find that Commission Staff's proposed depreciation lives be adopted by McCreary District for the calculation of depreciation expense for financial reporting purposes.<sup>22</sup>

McCreary District waived its right to request an informal conference or a formal hearing, but requested the Commission consider the arguments presented in its response and proceed in an expeditious manner to issue a decision.<sup>23</sup>

### TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of McCreary District's existing and proposed sewer rates as required by 807 KAR 5:076, Section 9.

### DISCUSSION AND FINDINGS FOR WATER DIVISION REVENUE REQUIREMENT ADJUSTMENTS

The Commission Staff's Report summarized McCreary District's pro forma income statement for the water division as follows:<sup>24</sup>

	<u>Test-Year Actual</u>	<u>Commission Staff Report</u>	
		<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 3,781,410	493,647	4,275,057
Operating Expenses	4,150,187	(551,717)	3,598,470
Income Available to Service Debt	<u>\$ (368,777)</u>	<u>\$ 1,045,364</u>	<u>\$ 676,587</u>

<sup>22</sup> Response to Commission Staff's Report at 3 and 6.

<sup>23</sup> Response to Commission Staff's Report at 8.

<sup>24</sup> See Appendix B for a detailed Pro Forma Income Statement for McCreary District's water division.

Billing Analysis. In the application, McCreary District proposed to increase revenue from water sales by \$382,877 to reflect an increase in rates from Case No. 2021-00021 and to account for adjustments for leaks and defective readings.<sup>25</sup> In the Commission Staff's Report, Commission Staff recommended that McCreary District's test-year revenues from water sales of \$3,623,288 be increased by \$502,127. Commission Staff also stated that this increase was based upon an adjustment to reflect the billing analysis provided by McCreary District, accounted for leaks and defective readings, and accounted for the increase in rates from Case No. 2021-00021, and resulted in normalized revenue from rates of \$4,125,415.<sup>26</sup>

In McCreary's Response to the Commission Staff's Report, McCreary District pointed out that Commission Staff erroneously said that the utility proposed to decrease its test-year revenues by \$382,877, when in fact McCreary District requested to increase revenues by that amount. McCreary District maintained that the correct adjustment to test-year revenue from water sales is \$382,877 and not the Commission Staff's proposed adjustment of \$502,127.<sup>27</sup> McCreary District explained that its proposed adjustment was calculated by applying test period consumption to current rates to produce total revenue of \$4,028,282 and then subtracting reported test period revenue of \$3,623,288 and adjustments for billing errors and leaks of \$22,116 for a pro forma of \$4,006,166.<sup>28</sup>

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<sup>25</sup> Application, Exhibit C, Schedule of Adjuster Operations – Water Utility, Reference A.

<sup>26</sup> Commission Staff's Report at 8, Adjustment A.

<sup>27</sup> Response to Commission Staff's Report at 1-2.

<sup>28</sup> Response to Commission Staff's Report at 1-2.

In the body of the Commission Staff's Report, Commission Staff misstated that McCreary District requested a decrease instead of an increase in this expense. Commission Staff also failed to explain in the Commission Staff's Report why its adjustment differed from McCreary District. The Commission has evaluated Commission Staff's calculations and concludes that an error on Commission Staff's billing analysis resulted in an incorrect normalized rate revenue of \$4,125,415 and finds that McCreary District's pro forma of \$4,006,165 to be correct. Therefore, the Commission reduces revenue from water sales by \$119,250.

In its Response to the Commission Staff's Report, McCreary District requested that the Commission authorize the inclusion of debt from the issuance of water revenue bonds to United States Department of Agriculture/Rural Development (RD)<sup>29</sup> and of an Assistance Agreement (KIA Agreement) with the Kentucky Infrastructure Authority (KIA).<sup>30</sup> The inclusion of the RD bonds and project will not increase the number of customers; however, the inclusion of the KIA Agreement and project will increase the number of customers for the water operations by 9 new customers.<sup>31</sup> As the Commission has approved the KIA funded project, the Commission finds that an adjustment for sales

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<sup>29</sup> Case No. 2021-00021, *Electronic Application of McCreary County Water District For A Certificate of Public Convenience and Necessity To Construct A System Improvements Project and An Order Approving A Change In Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023*, (Ky. PSC Feb. 22, 2021)

<sup>30</sup> Case No. 2021-00452, *Electronic Application of McCreary County Water District For Authorization To Enter An Assistance Agreement With the Kentucky Infrastructure Authority To Borrow \$270,000 To Finance the Construction of the Catron/Needle Road Water Line Project and A Declaration That Project Does Not Require A Certificate of Public Convenience and Necessity*, (Ky. PSC Feb. 1, 2022).

<sup>31</sup> Case No, 2021-00452, Division of Water Letter, at 1.

to the 9 new customers is reasonable and increased the Sales of Water by \$4,572.<sup>32</sup>

Miscellaneous Service Revenues. In Commission Staff's Report, Commission Staff discussed McCreary District's Nonrecurring Charges in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. Commission Staff recommended revised Nonrecurring Charges and a reduction to Other Operating Revenue of \$8,480.<sup>33</sup>

In its Response to Commission Staff's Report, McCreary District disagreed with the recommendation to remove labor costs. McCreary District argued that the costs associated with these charges should be borne by those who caused them. The Commission continues to follow its previous decisions regarding Nonrecurring Charges: personnel are paid during normal business hours and their salaries are recovered through rates. Salaries are fixed expenses and unrelated to the occurrence of Nonrecurring

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Months	NEW Customers	No. of Bills	
12	9	108	
			Number of Gallons Sold per BA 307,911,700
			Number of Residential Bills per BA 74,272
			Average Residential Usage (Gallons) 4,146

	USAGE	BILLS	GALLONS	FIRST 2000	OVER 2000
FIRST	2000	0	0	0	
OVER	2000	108	447552	216000	231552
		108	447552	216000	231552

REVENUE BY RATE INCREMENT

		BILLS	GALLONS	RATE	REVENUE
FIRST	2000	108	216000	22.5	2430
OVER	2000		231552	9.25	2141.856
TOTAL		108	447552		4571.856

<sup>33</sup> Commission Staff's Report at 8-9.

Charges. Allocating a portion of fixed costs to variable activities raises the likelihood that the utility does not accurately recover its fixed costs, such as salary expenses. Therefore, estimated labor costs previously included in determining the amount of Nonrecurring Charges shall be eliminated from the charges.

The Commission finds that the calculation of McCreary District's Nonrecurring Charges shall be revised and only the marginal costs related to the service should be recovered through a special Nonrecurring Charge for service provided during normal working hours. The Commission requires that charges be directly related to the actual cost incurred to provide the service. In fact, that is what the law requires. McCreary District cited, but selectively quoted the relevant regulation on this matter, 807 KAR 5:006, Section 9. In addition to the portion of the regulation quoted by McCreary District, the law also requires that "A charge shall relate directly to the service performed or action taken and shall yield only enough revenue to pay the expenses incurred in rendering the service."<sup>34</sup> Salary expense is not "incurred" in rendering the services related to Nonrecurring Charges that McCreary District takes issue. Instead, salaries are incurred as a matter of operation, irrespective of the occurrence or recurrence of activities related to Nonrecurring Charges. McCreary District proposes to read out of the regulation material language. Indeed, McCreary District's proposal is to ignore whether costs are *incurred* in rendering Nonrecurring Charge activities, and instead merely allocate fixed expenses for personnel used in performance of the activity. Such a proposal is inconsistent with the relevant regulation. Notwithstanding the law, the perceived "unfairness" in removing these costs does not outweigh the mismatch of costs and

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<sup>34</sup> 807 KAR 5:006, Section 9 (2).

revenues, which will likely lead to further degradation of McCreary District's revenues over time.

In the Commission Staff's Report, a return check fee of \$4.25 was included for combined water and sewer customers. In Case No. 2021-00300, McCreary District argued that only one fee should be established through the water tariff, and then returned check fees should be equally allocated between water and sewer operations.<sup>35</sup> The basis of this argument was that customers of the sewer operations are also customers of the water operations and receive a single bill for both services.<sup>36</sup> Hence, the Commission finds that it is not necessary to establish a separate returned check fee for the sewer customers but instead requires a notation in both the water and sewer operations tariffs that, because all sewer customers are water customers, the returned check fee incurred by sewer customers will be allocated 50/50 for ratemaking purposes between water and sewer operations. Based upon this finding, the Commission finds that the return check fee of \$4.25 for combined customers is not needed.

The Nonrecurring Charges shall each be reduced by the estimated labor costs stated in the cost justification sheets contained in the case record. The Commission finds the revised Nonrecurring Charges set out in Appendix A of this Order and the adjustment of (\$8,480) to Other Operating Revenue is reasonable.

Fibrotec. McCreary District made an adjustment to reduce Miscellaneous Service Revenues by \$34,453 to reflect removal of misclassified Fibrotec payments in its

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<sup>35</sup> Case No. 2021-00300, *Electronic Application of McCreary County Water District for an Alternative Rate Adjustment* (Ky. PSC Jul. 27, 2022), McCreary District's Response to the Commission Staff's Report at 7.

<sup>36</sup> Case No. 2021-00300, McCreary District's Response to the Commission Staff's Report at 7.

application.<sup>37</sup> According to McCreary District, the payments made by Fibrotec were for tests and other expenses related to the Sewer Division's Industrial User Permit Program. In reviewing McCreary District's application and supporting Excel workbook, the Commission notes that the adjustment to remove the misclassified Fibrotec payments were embedded in with other revenue adjustments that Commission Staff mistakenly overlooked.<sup>38</sup> In McCreary District's response to the Commission Staff Report, McCreary District noted the omission of the \$34,453.<sup>39</sup> The Commission finds that the revenue reclassification adjustment is correct, meets the ratemaking criteria of being known and measurable<sup>40</sup> and is accepted and, thus decreases Other Water Revenues by \$34,453.

Employee Salaries and Wages. In the Commission Staff's Report, Commission Staff calculated McCreary District's total pro forma salaries of \$1,111,361 using McCreary District's current staff level of 23 full-time employees, five part-time employees, the 2021 employee wage rates, 2,080 regular work hours for the full-time employees (Regular, Sick, Vacation, and Bereavement),<sup>41</sup> and the actual hours worked by the part-time

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<sup>37</sup> Application, Exhibit C, Schedule of Adjuster Operations – Water Utility, Reference B.

<sup>38</sup> Application, Exhibit C, References, at B.

<sup>39</sup> Response to Commission Staff's Report at 2.

<sup>40</sup> 807 KAR 5:001, 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 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).

<sup>41</sup> Employee regular hours worked in the test-year was limited to 2,080 hours. Commission Staff used each employee's actual test-year overtime/compensatory hours.

employees.<sup>42</sup> Commission Staff excluded the lump-sum payments for unused vacation time from its calculation of pro forma Employee Salaries and Wages expense due to McCreary District's failure to provide adequate documentation to support its policy as being reasonable or warranted.<sup>43</sup>

By applying McCreary District's allocation factors to the pro forma salary of each employee, Commission Staff arrived at its allocated pro forma Salaries and Wages expense for the water division of \$798,185, which results in a decrease of \$79,301.<sup>44</sup> The Commission finds that the Commission Staff's recommended adjustment to Employee Salaries and Wages expense meets the ratemaking criteria of being known and measurable, is reasonable, and is accepted.

Tap-on Fees. In the Commission Staff Report, Commission Staff recommended the Commission accept McCreary District's adjustment to decrease Employee Salaries and Wages expense \$22,434.<sup>45</sup> McCreary District's adjustment reflects the removal of the labor cost incurred for meter installation that was incorrectly recorded as an operating expense.<sup>46</sup> The Commission finds that McCreary District's proposed adjustment meets the ratemaking criteria of being known and measurable, is reasonable, and is accepted.

Salaries and Wages - Commissioners. In the Commission Staff Report, Commission Staff recommended the Commission accept McCreary District's proposed adjustment to decrease reported test-year Salaries and Wages expense of \$30,000 by

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<sup>42</sup> Commission Staff's Report at 9-11, Adjustment C.

<sup>43</sup> Commission Staff's Report at 9-11.

<sup>44</sup> Commission Staff's Report at 9-11.

<sup>45</sup> Commission Staff's Report at 11, Adjustment D.

<sup>46</sup> Commission Staff's Report at 11.

\$6,664.<sup>47</sup> McCreary District's proposed adjustment is based on allocating the corrected salaries<sup>48</sup> paid to its board between the water and sewer divisions based upon the number of customers served by each division.<sup>49</sup> The Commission finds the methodology employed by McCreary District to allocate the board salaries between the two divisions conforms to past Commission precedent,<sup>50</sup> results in a reasonable allocation of shared costs between the two divisions, and therefore is accepted.

Employee Benefits. In the Commission Staff's Report, Commission Staff allocated pro forma employee insurance premiums of \$185,529 between the two divisions using McCreary District's salary allocation factors resulting in a decrease to the water division's Employee Pensions and Benefits expense of \$58,235.<sup>51</sup> In the Response to Commission Staff's Report, McCreary District identified an error in the Commission Staff's Report noting that the Commission Staff's Report misstated the employer contributions for employee dental insurance.<sup>52</sup> McCreary District noted that in the schedule in Appendix C

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<sup>47</sup> Commission Staff's Report at 12, Adjustment E.

<sup>48</sup> In the test-year a member of the Board failed to obtain the 6 hours of required training and, therefore, received an annual Commissioner fee of \$3,600 instead of the reported fee of \$6,000.  $\$27,000$  (Corrected Commissioner Fees)  $\times$  84.55% (Ratio of Water Customers to Total Customers) =  $\$23,336$  (Water Division's Allocated Commissioner Fee) -  $\$30,000$  (Reported Test-Year Commissioner Fee) =  $\$6,664$ .

<sup>49</sup> Commission Staff's Report at 12.

<sup>50</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); 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) and Case No. 2021-00094, *Electronic Application of Garrison-Quincy-Ky-O-Heights Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 24, 2021) at 12-13.

<sup>51</sup> Commission Staff's Report at 12-14, Adjustment F and Appendix C.

<sup>52</sup> Response to Commission Staff's Report at 2-3.

of the Commission Staff's Report, the calculation reduces McCreary District's contribution to the employee dental premiums to 60 percent rather than the 40 percent contribution rate identified by Commission Staff.<sup>53</sup>

In reviewing Appendix C of the Commission Staff's Report, the Commission agrees that an error was made in the calculation of the allowable dental insurance premium. Using the correct employer contribution rate of 40 percent results in a revised allocation of McCreary District's employee insurance premiums to the sewer division of \$130,428. The Commission finds that the adjustment proposed by Commission Staff meets the criteria formerly set by the Commission, is known and measurable, and is reasonable. Further, the Commission finds that Commission Staff's employee insurance premiums allocated to the water division of \$132,094 shall be decreased by \$1,666 for a pro forma level of \$130,428, as calculated in Appendix C to this Order.

County Employee Retirement System (CERS). In the Commission Staff's Report, Commission Staff allocated the pro forma CERS employer contributions of \$299,513 between the two divisions using McCreary District's salary allocation factors resulting in a decrease to the water division's Employee Pensions and Benefits expense of \$238,678.<sup>54</sup> The Commission finds the methodology employed by Commission Staff to allocate the CERS employer contribution between the two divisions conforms to past Commission precedent, results in a reasonable allocation of shared costs between the two divisions, and therefore is accepted.

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<sup>53</sup> Response to Commission Staff's Report at 2-3.

<sup>54</sup> Commission Staff's Report at 14-15, Adjustment G.

Electricity – Office. In the Commission Staff’s Report, Commission Staff decreased Purchased Power expense by \$1,836 to allocate the cost of McCreary District’s office electricity between the water and sewer divisions based upon the number of customers each division served.<sup>55</sup> The Commission finds the methodology employed by Commission Staff to allocate the cost of the electricity used at McCreary District’s office between the two divisions conforms to past Commission precedent, results in a reasonable allocation of shared costs between the two divisions, and therefore is accepted.

Materials and Supplies. In the Commission Staff’s Report, Commission Staff reduced Materials and Supplies expense by \$36,537 and increased depreciation expense by \$614.<sup>56</sup> Commission Staff’s adjustments removed capital expenditures from test-year operating expenses and depreciated them over their estimated useful lives.<sup>57</sup> In keeping with Commission precedent, Commission Staff depreciated the capital expenditures over the midpoint of the depreciation live ranges contained in the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).<sup>58</sup>

In its Response to Commission Staff’s Report, McCreary District noted that the capital expenditures listed in the table on page 17 of the Commission Staff’s Report

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<sup>55</sup> Commission Staff’s Report at 15, Adjustment H.

<sup>56</sup> Commission Staff’s Report at 15-16, Adjustment I.

<sup>57</sup> Commission Staff’s Report at 15-16.

<sup>58</sup> Commission Staff’s Report at 15-16.

actually totals \$38,336, which would require that Materials and Supplies expense be decreased by an additional \$1,799.<sup>59</sup>

The Commission finds that Commission Staff's calculation of its \$36,537 capital expenditure adjustment did not include the first listed item of \$1,799, Eclipse Engineers - PLC ARCG Mapping System.<sup>60</sup> Accordingly, the Commission finds that Commission Staff's adjustments to Maintenance – Pumping System and Other Plant expense of \$36,537 to remove capital expenditures to be reasonable, but further modifies this by removing the additional \$1,799.

Operating Expense - Allocations. In the Commission Staff's Report, Commission Staff accepted McCreary District's adjustments to allocate common costs between the two divisions based upon number of customers served by each division and to reassign costs reported by the water division that were incurred solely for sewer service.<sup>61</sup> The shared cost allocation and reclassification adjustments resulted in a decrease to test-year Contractual Services expense of \$49,975 and an increase to test-year Miscellaneous expense of \$2,082.<sup>62</sup> The Commission finds that the shared cost allocation methodology employed by Commission Staff conforms to past Commission precedent, results in a reasonable allocation of shared costs between the two divisions, the recommended reclassification of costs to the sewer division is reasonable, and therefore the adjustments are accepted.

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<sup>59</sup> Response to Commission Staff's Report at 3.

<sup>60</sup> Commission Staff's Report at 15-16, Adjustment I.

<sup>61</sup> Commission Staff's Report at 17-18, Adjustment J.

<sup>62</sup> Commission Staff's Report at 17-18.

Insurance – Workers Compensation. In the Commission Staff’s Report, Commission Staff decreased the water division’s Insurance – Workers Compensation expense of \$26,835 by \$17,509 to a pro forma expense level of \$9,327.<sup>63</sup> Commission Staff allocated workers compensation insurance premium between its two division based upon the adjusted payroll of each division.<sup>64</sup> The Commission finds Commission Staff’s proposed Insurance – Workers Compensation expense allocation adjustment to be reasonable given that the Workers’ Compensation insurance premium is directly related to the level of employee salaries reported by a utility.

Insurance - General Liability. In the Commission Staff’s Report, Commission Staff decreased the water division’s Insurance – General Liability expense of \$33,976 by \$6,651 to a pro forma expense level of \$27,325.<sup>65</sup> Commission Staff allocated general liability insurance premium between its two divisions based upon the pro forma operating revenues of each division.<sup>66</sup> However, in the Commission Staff’s Report, although the calculation shown was (\$6,651), the pro forma adjustment applied was (\$6,644). The Commission finds Commission Staff’s proposed Insurance – General Liability expense allocation adjustment to be reasonable given that the General Liability insurance premium given its historical relationship the operating revenues reported by a utility but modifies this adjustment by \$7 to correct Commission Staff’s error.

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<sup>63</sup> Commission Staff’s Report at 18, Adjustment K.

<sup>64</sup> Commission Staff’s Report at 18.

<sup>65</sup> Commission Staff’s Report at 19, Adjustment L.

<sup>66</sup> Commission Staff’s Report at 19.

Public Service Commission (PSC) Assessment. In the Commission Staff's Report, Commission Staff provided a calculation showing that the pro forma PSC Assessment was \$8,539 based upon Normalized Operating Revenue for the water division of \$4,269,334<sup>67</sup>. However, the correct PSC Assessment of \$8,550<sup>68</sup> is shown in Adjustment M contained in the Pro Forma Income Statement on page 7 of the Commission Staff's Report and is carried forward to the Revenue Requirement Calculation on page 22 of the Commission Staff's Report.

In the Response to Commission Staff's Report, McCreary District pointed to a discrepancy between the Normalize Operating Revenue of \$4,269,334 on page 19 of the Commission Staff's Report, and \$4,275,057 in the Pro Forma Operating Revenue on page 7 of the Commission Staff's Report.<sup>69</sup> McCreary District argued that if the latter amount is correct, then Commission Staff's PSC assessment should be corrected.<sup>70</sup> McCreary District also argued that if its proposed revenue adjustments are accepted, then an adjustment to Commission Staff's recommended PSC Assessment would also be required.<sup>71</sup>

In reviewing the calculation of the PSC Assessment on page 19 of the Commission Staff's Report, the Commission agrees with McCreary District that Commission Staff's calculation of the pro forma adjustment of \$937 is incorrect. However, in reviewing the Pro Forma Operating Income Statement on page 7 of the Commission Staff's Report, the

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<sup>67</sup> Commission Staff's Report at 19-20, Adjustment M.

<sup>68</sup>  $\$4,274,057$  (Pro Forma Operating Revenue)  $\times$   $\$0.0020$  (PSC Assessment Rate) =  $\$8,550$ .

<sup>69</sup> Response to Commission Staff's Report at 5.

<sup>70</sup> Response to Commission Staff's Report at 5.

<sup>71</sup> Response to Commission Staff's Report at 5.

Commission Staff notes that adjustment (M) on the pro forma is properly reflected as \$926. As a result, the correct PSC Assessment Fee of \$8,550 was included in pro forma operations and used in the calculation of the revenue requirement.<sup>72</sup> However, as a result of the revenue adjustments made in the preceding sections of this Order, Commission Staff's recommended PSC Assessment of \$8,550 should be reduced by \$298 to a revised level of \$8,252.<sup>73</sup> The Commission finds that the revised PSC Assessment Fee of \$8,252 is known and measurable, and therefore is reasonable and is accepted.

Depreciation. In the Commission Staff's Report, Commission Staff recommended an adjustment decreasing test-year Depreciation expense of \$1,092,601 by \$21,205 in keeping with Commission precedent of using the NARUC Study to evaluate the depreciation lives used by the water utilities under its jurisdiction.<sup>74</sup> When no evidence exists to support a specific life that is inside or outside of the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC Study depreciation ranges to depreciate water assets.<sup>75</sup> The Commission finds that Commission Staff's proposed adjustment is reasonable and is accepted as it is consistent with Commission precedent.

Per McCreary District's request,<sup>76</sup> the Commission finds that McCreary District shall use the mid-point of the depreciable lives of the NARUC Study ranges, as recommended by Commission Staff, to depreciate water plant assets for accounting

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<sup>72</sup> \$4,274,057 (Pro Forma Operating Revenue) x \$0.0020 (PSC Assessment Rate) = \$8,550.

<sup>73</sup> \$4,125,926 (Normalized Operating Revenue) x \$0.0020 (Assessment Rate) = \$8,252 - \$8,550 (PSC Assessment Commission Staff Report) = (\$298).

<sup>74</sup> Commission Staff's Report at 19-20, Adjustment P.

<sup>75</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).

<sup>76</sup> Response to Commission Staff's Report at 5-6

purposes in all future reporting periods. The Commission further finds that McCreary District shall not make an adjustment to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

Taxes Other Than Income–Payroll Taxes. In the Commission Staff Report, Staff recommended that McCreary District’s Payroll Tax expense of \$75,523 be decreased by \$14,462 to reflect applying the Federal Insurance Contributions Act (FICA) rate of 7.65 percent to the Employee Salaries and Wages expense for the water division.<sup>77</sup> Commission Staff excluded the salaries paid to McCreary District’s Board members from its FICA calculation, believing that they are not employees of the district, but rather would be classified as independent contractors.<sup>78</sup>

In its Response to Commission Staff’s Report, McCreary District argued that Commission Staff’s position that members of its Board are independent contractors rather than district employees is in conflict with federal tax law.<sup>79</sup> According to McCreary District Internal Revenue Service (IRS) Information Letter 2000-0038 and the Internal Revenue Code (IRC) Section 3401(c), an officer, employee or elected official of a state or local government is an employee for income tax purposes.<sup>80</sup> McCreary District contended that by federal statute, public officers are specifically included within the term “employee” for income tax withholding purposes (and conversely are not “independent contractors” for income tax withholding purposes).<sup>81</sup>

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<sup>77</sup> Commission Staff’s Report at 21-22, Adjustment O.

<sup>78</sup> Commission Staff’s Report at 21-22.

<sup>79</sup> Response to Commission Staff’s Report at 3-5.

<sup>80</sup> Response to Commission Staff’s Report at 3-5.

<sup>81</sup> Response to Commission Staff’s Report at 3-5.

McCreary District noted that 26 C.F.R. § 31.3401(c)-1(a) (Treas. Reg. 31.3401(c)-1) clarifies that officers or employees can either be elected or appointed and that for FICA (Social Security and Medicare) purposes, elected officials are subject to a degree of control that typically make them employees under the common law, and therefore subject to payroll taxes.<sup>82</sup> To further support its position McCreary District explains that 26 C.F.R. §1.1402(c)-2 (Treas. Reg. 1. 402(c)-2) provides that holders of “public office” are not in a trade or business and are therefore not subject to self-employment tax, unless they receive fees for the performance of the functions of a public office and are paid solely on a fee basis.<sup>83</sup>

The Commission concludes that McCreary District presented sufficient evidence to support its position that the members of its Board should be treated as employees of McCreary District and salaries earned by its Board are subject to FICA tax. The Commission finds, based on the evidence of record, the Commission Staff’s adjustment accurately reflects the level of FICA expense that should be reported by the water division as a result of Commission Staff’s proposed payroll allocations. In addition, based upon including the FICA taxes on the salaries paid to members of the Board, the Commission finds that Commission Staff’s FICA expenses allocated to the sewer division of \$61,061 should be increased by an additional \$1,785 for a pro forma level of \$62,846.<sup>84</sup>

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<sup>82</sup> Response to Commission Staff’s Report at 3-5.

<sup>83</sup> Response to Commission Staff’s Report at 3-5.

<sup>84</sup> \$798,185 (Allocated Salaries and Wages – Emp.) + \$23,336 (Pro Forma Salaries and Wages - Commissioners) = \$821,521 (Salaries Subject to FICA) x 7.65% (FICA Emp. Contribution Rate) = \$62,846 (Revised FICA Tax) - \$61,061 (Commission Staff’s Recommended FICA Tax) = \$1,785.

Debt Service. On March 4, 2022, McCreary District issued \$542,000 in water revenue bonds to Rural Development (RD) that was authorized in Case No. 2021-00021,<sup>85</sup> and on March 18, 2022, McCreary District entered into an Assistance Agreement with KIA for a \$270,000 loan that was authorized in Case No. 2021-00452.<sup>86</sup> McCreary District requested that the Commission include the debt service requirements of each debt in its determination of McCreary District's revenue requirement.<sup>87</sup>

The RD bonds approved in Case No. 2021-00021 funded replacement of 30,785 feet of an existing waterline but this project would not directly allow McCreary District to provide service to new customers. The KIA Agreement approved in Case No. 2021-00452 was for the installation of 8,100 feet of 3-inch waterline and 205 LF of 3/4-inch service and will enable McCreary District to provide water service to nine new customers. The Commission has traditionally limited how far outside the test year it will allow post-test-year adjustments, especially if such adjustments are made in isolation from similar adjustments to revenues, rate base and capitalization. McCreary District's proposal is to include debt service payments for debt that was issued 15 months outside of the 2020 calendar year test year. McCreary District provided the impact its new debt issuances has on debt service<sup>88</sup> but neglected to include the impact the new projects would have on operating revenues (water sales) or operating expenses (purchased water, maintenance, or depreciation).

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<sup>85</sup> Case No. 2021-00021, Order at 6.

<sup>86</sup> Case No. 2021-00452, Order at 8.

<sup>87</sup> Response to Commission Staff's Report at 5-6.

<sup>88</sup> Response to Commission Staff's Report at 5-6.

In Case No. 10481,<sup>89</sup> the Commission gave notice to all utilities under its jurisdiction that adjustments for post-test-period additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions. To follow the guidelines established in Case No. 10481 the Commission is increasing normalized revenues by \$4,572, variable expenses (Chemicals and Electricity) by \$470, Depreciation expense by \$6,635, debt service by \$17,010, and working capital allowance by \$3,402. The calculations of the Commission's post-test-period adjustments appear in Appendix D to this Order.

Based on the Commission's findings discussed above, the following table summarizes McCreary District's adjusted Pro Forma operations for its sewer division:<sup>90</sup>

	Commission Staff Report	Order	
	Pro Forma Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 4,275,057	(149,131)	4,125,926
Operating Expenses	3,598,470	5,127	3,603,597
Income Available to Service Debt	<u>\$ 676,587</u>	<u>\$ (154,258)</u>	<u>\$ 522,329</u>

### REVENUE REQUIREMENT

Based upon the Commission's findings and determinations herein, McCreary District requires an increase in water revenues of \$343,061, or 8.55 percent above pro forma present rate revenues as shown below. This increase is required for McCreary

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<sup>89</sup> See Case No. 10481, *Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989* (Ky. PSC Aug. 22, 1985) at 5.

<sup>90</sup> See Appendix B for a complete pro forma income statement.

District’s water division to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.<sup>91</sup>

	McCreary District	Commission Staff Report	Commission	
			Adjustments	Order
Pro Forma Operating Expenses	\$ 3,649,403	\$ 3,598,470	\$ 5,127	\$ 3,603,597
Plus: Average Annual Debt Service	713,442	713,442	17,010	730,452
Debt Service Coverage	<u>142,688</u>	<u>142,688</u>	<u>3,402</u>	<u>146,090</u>
Overall Revenue Requirement	4,505,533	4,454,600	25,539	4,480,139
Less: Other Water Revenues	(139,711)	(149,642)	34,453	(115,189)
Interest Income	<u>(11,152)</u>	<u>(11,152)</u>		<u>(11,152)</u>
Revenue Required - Water Sales	4,354,670	4,293,806	59,992	4,353,798
Less: Normalized Revenue - Water	<u>(4,006,165)</u>	<u>(4,125,415)</u>	<u>114,678</u>	<u>(4,010,737)</u>
Required Revenue Increase	<u>\$ 348,504</u>	<u>\$ 168,391</u>	<u>\$ 174,670</u>	<u>\$ 343,061</u>
Percentage Increase	<u>8.70%</u>	<u>4.08%</u>		<u>8.55%</u>

### RATE DESIGN

McCreary District proposed to increase its monthly retail and wholesale water service rates over two phases. McCreary District has not performed a cost of service study (COSS). McCreary District stated that it did not complete a COSS at this time as the Commission Order requiring the filing of this rate case did not direct it to file a COSS.<sup>92</sup> McCreary District further stated that it expects to have significant growth and changes in the sewer system over the next 24 to 36 months. McCreary District anticipates filing another rate case within 36 months once this application has been finalized and at that time a comprehensive COSS will accompany the filing.<sup>93</sup>

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

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<sup>91</sup> KRS 278.030(2).

<sup>92</sup> McCreary District’s Response to Staff’s First Request (filed Nov. 19, 2021), Item 30.

<sup>93</sup> McCreary District’s Response to Staff’s First Request, Item 30

the absence of a COSS. Finding no such evidence in this case, the Commission finds that allocating the \$343,061 increase in revenues evenly across the board to be reasonable. Further, due to the large rate increase required to allow McCreary District to remain operational and financially sound to provide continued service to its customers, the Commission finds that the requested two-year phase-in approach is reasonable in this instance and should be approved.

The Commission finds that the rates set forth in Appendix A are reasonable and will produce sufficient revenue from water sales to recover the Revenue Required from Water Rates and should be approved. The phase-one rates will increase the monthly bill of a typical residential customer using 4,000 gallons of water by \$1.76, from \$41.00 to \$42.76, or approximately 4.30 percent. The phase-two rates will increase the monthly bill of a typical residential customer by \$1.74, from \$42.76 to \$44.50, or approximately 4.07 percent.

#### SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the findings contained in the Commission Staff's Report and discussed above 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 McCreary District's pro forma operations results in an Overall Revenue Requirement of \$4,480,139 and, based upon pro forma rate service revenues of \$4,353,798, a revenue increase of \$343,061 from water service rates is necessary to generate the overall revenue requirement. The

Commission further finds that allocating the calculated revenue increase across-the-board to McCreary District's monthly retail sewer service rates to be fair, just and reasonable. Finally, the Commission has determined that McCreary District shall monitor the sufficiency of base rates at minimum annually to determine whether a base rate adjustment is warranted.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Commission Staff's Report, as modified, are adopted and incorporated by reference into this Order.
2. The rates originally proposed by McCreary District are denied.
3. The rates set forth in Appendix A to this Order are approved for services rendered by McCreary District on and after the date of this Order.
4. Within 20 days of the date of entry of this Order, McCreary 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.
5. McCreary District shall establish a policy that allows for the Returned Check Charge to be assessed through its water service tariff but for ratemaking purposes be allocated on a percentage basis established by McCreary District in writing and submitted to the Commission.
6. McCreary District shall use the midpoint of the depreciable lives of the NARUC Study ranges, as recommended by Commission Staff, to depreciate water plant assets for accounting purposes in all future reporting periods.

7. McCreary District shall not make an adjustment to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

8. McCreary District shall apply its proposed shared cost allocation rules for financial reporting and ratemaking purposes.

9. McCreary District shall notify its customers of the implementation of the rates as calculated herein by publishing notice of the increase in a newspaper of general circulation in its territory or placing an insert in bills rendered to its customers.

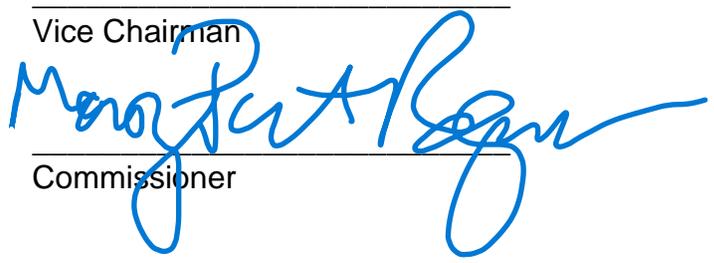
10. McCreary District shall provide proof of publication of the notice to the Commission no later than 30 days from the date of this Order.

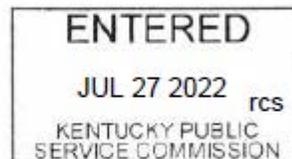
11. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

  
\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Vice Chairman

  
\_\_\_\_\_  
Commissioner



ATTEST:

  
\_\_\_\_\_  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00301 DATED JUL 27 2022

Monthly Water Rates

Phase 1 Rates

Residential & Non-Residential Meters

First 2,000 Gallons	\$23.46	Minimum Bill
Over 2,000 Gallons	\$0.00965	Per Gallon

Federal Correctional Facility

First 1,950,000 Gallons	\$14,823.21	Minimum Bill
Over 1,950,000 Gallons	\$0.00759	Per Gallon

Cumberland Falls State Park

First 600,000 Gallons	\$4,560.99	Minimum Bill
Over 600,000 Gallons	\$0.00759	Per Gallon

Flat Rate Customers

Whitley County Water District	\$0.00759	Per Gallon
Oneida, Tennessee	\$0.00759	Per Gallon
Fibrotec, USA	\$0.00759	Per Gallon
Pine Knot Job Center	\$0.00759	Per Gallon
McCreary County Housing Authority	\$0.00759	Per Gallon

Phase 2 Rates

To be implemented one year following Phase 1

Residential & Non-Residential Meters

First 2,000 Gallons	\$24.42	Minimum Bill
Over 2,000 Gallons	\$0.01004	Per Gallon

Federal Correctional Facility

First 1,950,000 Gallons	\$15,430.93	Minimum Bill
Over 1,950,000 Gallons	\$0.00790	Per Gallon

Cumberland Falls State Park

First 600,000 Gallons	\$4,747.98	Minimum Bill
Over 600,000 Gallons	\$0.00790	Per Gallon

Flat Rate Customers

Whitley County Water District	\$0.00790	Per Gallon
Oneida, Tennessee	\$0.00790	Per Gallon
Fibrotec, USA	\$0.00790	Per Gallon
Pine Knot Job Center	\$0.00790	Per Gallon
McCreary County Housing Authority	\$0.00790	Per Gallon

Water Nonrecurring Charges

Meter Re-Read Charge	\$12.50
Meter Test Charge	\$12.50
Reconnect Charge	\$12.50
Return Check Charge	\$ 8.50

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00301 DATED JUL 27 2022

#### Pro Forma Income Statement

	Test Year Operations	Commission Staff Report		Order	
		Pro Forma Adjustments	Pro Forma Operations	Pro Forma Adjustments	Pro Forma Operations
<b>Operating Revenues</b>					
Sales of Water	\$ 3,623,288	\$ 502,127	\$ 4,125,415	\$ 4,572	\$ 4,010,737
				(119,250)	
Other Water Revenue					
Miscellaneous Service Revenues	105,578	(8,480)	97,098	(34,453)	62,645
Rents from Water Properties	52,544		52,544		52,544
Total Other Water Revenues	158,122	(8,480)	149,642	(34,453)	115,189
Total Operating Revenues	3,781,410	493,647	4,275,057	(149,131)	4,125,926
<b>Operating Expenses</b>					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	877,486	(79,301)			
		(22,434)	775,751		775,751
Salaries and Wages - Commissioners	30,000	(6,664)	23,336		23,336
Employee Pensions and Benefits	648,236	(58,235)			
		(238,678)	351,323	(1,666)	349,657
Purchased Power for Pumping	302,100	(1,836)	300,264	327	300,591
Chemicals	132,583		132,583	143	132,726
Materials and Supplies	251,395	(36,537)	214,858	(1,799)	213,059
Contractual Services	361,049	(49,975)	311,074		311,074
Water Testing	1,732		1,732		1,732
Transportation Expenses	86,251		86,251		86,251
Insurance	69,138	(17,509)			
		(6,651)	44,978		44,978
Regulatory Commission Exp.	9,476	(926)	8,550	(298)	8,252
Bad Debt	53,440		53,440		53,440
Misc. Expense	116,109	2,082	118,191		118,191
Total Operation and Maintenance Expenses	2,938,995	(516,664)	2,422,331	(3,293)	2,419,038
Depreciation	1,092,601	(21,205)			
		614	1,072,010	6,635	1,078,645
Amortization	43,068		43,068		43,068
Taxes Other Than Income	75,523	(14,462)	61,061	1,785	62,846
Total Operating Expenses	4,150,187	(551,717)	3,598,470	5,127	3,603,597
Net Operating Income	\$ (368,777)	\$ 1,045,364	\$ 676,587	\$ (154,258)	\$ 522,329

## APPENDIX C

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00301 DATED JUL 27 2022

#### Employee Pensions and Benefits

Emp. No.	Allocations Water Sewer		Job Title	Health Plan	Annual Emp. Health & Dental Prem.		Allowable Employee Benefit Premiums and Employer CERS Contributions				Employee Pension & Benefit Allocations			
					2021 Health Ins. Prem.	Dental Ins. Prem.	Health Ins. Prem.		Dental 40%	Vision	Life	Total	Water	Sewer
							Single 78%	Family 66%						
1	100.00%	0.00%	Dist Lineman	Couple	\$ 12,875	\$ 490	\$ 8,498	\$ 196	\$ 157	\$ 66	\$ 8,917	\$ 8,917	\$ -	
2	100.00%	0.00%	Dist Lineman	Family	17,780	952	11,735	381	243	66	12,425	12,425	0	
4	100.00%	0.00%	Dist Supervisor/Machine Op	Parent Plus	11,036	475	7,284	190	165	66	7,705	7,705	0	
5	100.00%	0.00%	Dist Lineman	NONE	0	0	0	0	0	0	0	0	0	
6	98.10%	1.90%	Dist Lineman	Single	6,131	233	4,782	93	83	66	5,024	4,929	95	
7	98.20%	1.80%	Meter Reader/Dist Lineman	Single	6,131	233	4,782	93	83	66	5,024	4,934	90	
8	84.55%	15.45%	Office Customer Service	NONE	0	0	0	0	0	0	0	0	0	
9	84.55%	15.45%	Office Customer Service	NONE	0	0	0	0	0	0	0	0	0	
10	100.00%	0.00%	Water Treatment Plant Op	Family	17,780	952	11,735	381	243	66	12,425	12,425	0	
12	84.55%	15.45%	Office Customer Service	NONE	0	233	0	93	83	66	242	205	37	
13	100.00%	0.00%	Water Treatment Plant Op	SINGLE	6,131	233	4,782	93	83	66	5,024	5,024	0	
14	100.00%	0.00%	Water Treatment Plant Op	Family	17,780	952	11,735	381	243	66	12,425	12,425	0	
15	100.00%	0.00%	Dist Lineman/Mechanic	Single	6,131	233	4,782	93	83	66	5,024	5,024	0	
16	100.00%	0.00%	Water Treatment Plant Op	NONE	0	0	0	0	0	0	0	0	0	
18	84.55%	15.45%	Office Customer Service	Family	17,780	952	11,735	381	243	66	12,425	10,505	1,920	
19	84.55%	15.45%	Administrative Assistant	Couple	12,875	490	8,498	196	157	66	8,917	7,539	1,378	
21	90.00%	10.00%	Dist Lineman	Couple	12,875	490	8,498	196	157	66	8,917	8,025	892	
22	84.55%	15.45%	Office Manager	Single	6,131	233	4,782	93	83	66	5,024	4,248	776	
23	71.15%	28.85%	Manager/Supt	Family	17,780	475	11,735	190	165	66	12,156	8,649	3,507	
24	100.00%	0.00%	Dist Lineman	Single	6,131	233	4,782	93	83	66	5,024	5,024	0	
26	100.00%	0.00%	Dist Lineman	NONE	0	0	0	0	0	0	0	0	0	
27	100.00%	0.00%	Water Treatment Plant Op	Family	17,780	952	11,735	381	243	66	12,425	12,425	0	
28	0.00%	100.00%	Water Treatment Plant Op	Single	6,131	233	4,782	93	83	66	5,024	0	5,024	
29	0.00%	100.00%	Wastewater Treatment Op	Single	6,131	233	4,782	93	83	66	5,024	0	5,024	
30	0.00%	100.00%	Wastewater Treatment/Col	Family	17,780	952	11,735	381	243	66	12,425	0	12,425	
31	0.00%	100.00%	Wastewater Supervisor	Parent Plus	11,036	475	7,284	190	165	66	7,705	0	7,705	
32	0.00%	100.00%	Wastewater Collection	Single	6,131	233	4,782	93	83	66	5,024	0	5,024	
33	0.00%	100.00%	Wastewater Collection	Couple	12,875	490	8,498	196	157	66	8,917	0	8,917	
					<u>\$ 253,211</u>	<u>\$ 11,427</u>	<u>\$ 165,245</u>	<u>\$ 4,570</u>	<u>\$ 3,411</u>	<u>\$ 1,518</u>	<u>\$ 183,242</u>	<u>\$ 130,428</u>	<u>\$ 52,814</u>	

Pro Forma Employee Pension & Benefit Expense - Water  
Less: Test- Year Employee Pension & Benefit Expense - Water

\$ 130,428  
(132,094)

Pro Forma Adjustment

\$ (1,666)

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00301 DATED JUL 27 2022

Post-Test Year Adjustments

Retail Water Sales per Billing Analysis	307,911,700
Divided by: Retail Bills	<u>74,272</u>

Average Retail Usage	<u><u>4,146</u></u>
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		Existing Rates	Gallons	Amount
First	2,000	\$ 22.50	2,000	\$ 22.50
Over	2,000	\$ 0.00925	2,146	\$ 19.85

Average Retail Bill	4,146	\$ 42.35
Multiplied by: 9 New Customers	<u>9</u>	<u>9</u>

Revenue Impact - Monthly	37,314	\$ 381.00
Multiplied by: 12-Months	<u>12</u>	<u>12</u>

Revenue Impact - Annual	<u><u>447,768</u></u>	<u><u>\$ 4,572</u></u>
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	Electricity	Chemicals	Total
Variable Expenses	300,264	132,583	432,847
Divide: Total Gallons Sold	<u>410,636,100</u>	<u>410,636,100</u>	<u>410,636,100</u>

Variable Production Cost per Gallon	\$ 0.00073	\$ 0.00032	\$ 0.00105
Multiplied by: Projected Sales - Gallons	<u>447,768</u>	<u>447,768</u>	<u>447,768</u>

Increase Variable Production Costs	<u><u>\$ 327</u></u>	<u><u>\$ 143</u></u>	<u><u>\$ 470</u></u>
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Cost of Water Line Projects	\$ 414,710
Divided by: NARUC Study Depreciation life for Mains	<u>63</u>

Depreciation Adjustment	<u><u>\$ 6,635</u></u>
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\*Gerald E Wuetcher  
Attorney at Law  
STOLL KEENON OGDEN PLLC  
300 West Vine Street  
Suite 2100  
Lexington, KENTUCKY 40507-1801

\*Kathy Troxell  
McCreary County Water District  
P.O. Box 488  
Whitley City, KY 42653

\*McCreary County Water District  
Highway 27  
P. O. Box 488  
Whitley City, KY 42653

\*Stephen Whitaker  
Superintendent  
McCreary County Water District  
P.O. Box 488  
Whitley City, KY 42653