

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BRONSTON	)	CASE NO.
WATER ASSOCIATION, INC. FOR A RATE	)	2022-00117
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is given that, in accordance with the Commission's Orders of May 2, 2022, as amended on July 15, 2022, the attached report containing the recommendations of Commission Staff regarding the Bronston Water Association's (Bronston Water) proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's May 2, 2022 Order, as amended by the July 15, 2022 Order, Bronston Water is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs Bronston Water to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED AUG 24 2022

cc: Parties of Record

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<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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COMMISSION STAFF'S REPORT  
ON BRONSTON WATER ASSOCIATION

Bronston Water Association (Bronston Water) is a water utility organized pursuant to KRS Chapter 273 that owns and operates a water distribution system through which it provides retail water service to approximately 1,823 residential customers, and 71 commercial customers, that reside in Pulaski and Wayne counties, Kentucky.<sup>1</sup> On April 13, 2022, Bronston Water filed an application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Order in Case No. 2020-00416.<sup>2</sup> Bronston Water's last base rate increase was Case No. 2003-00159.<sup>3</sup> To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated May 2, 2022, that was amended by an Order issued on July 15, 2022. Bronston Water responded to three requests for information from Commission Staff. On July 15, 2022, the Commission by

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<sup>1</sup> *Annual Report of Bronston Water to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

<sup>2</sup> Case No. 2020-00416, *Electronic Application of Bronston Water Association, Inc. 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 Apr. 30, 2021), Order at 5, ordering paragraph 1.

<sup>3</sup> Case No. 2003-00159, *Application of Bronston Water Association, Inc. for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 7, 2003).

its own motion, amended the May 2, 2022 Order revising the Commission Staff's Report due date to August 24, 2022.

### TEST YEAR

To comply with the requirements of 807 KAR 5:076, Section 9,<sup>4</sup> Bronston Water used the calendar year ended December 31, 2020, as the basis for its application. The application should have been marked deficient because the most recent Annual Report filed by Bronston Water as of the date that this application was submitted was the 2021 Annual Report.<sup>5</sup> According to 807 KAR 5:076, Section 1(2)(a) and (b):

Annual report for the immediate past year means an annual report that covers the applicant's operations for either: The calendar year period prior to the year in which the applicant's application for rate adjustment is filed with the commission; or The most recent calendar year period that 807 KAR 5:006, Section 4(1), requires the applicant to have on file with the commission as of the date of the filing of its application for rate adjustment; Application was submitted using 2020 annual reporting data.

Therefore, since the 2021 Annual Report was filed before the application was submitted, Bronston Water should have used 2021 as its test year. Subsequently, Commission Staff conducted additional discovery and made adjustments to the utilities pro forma operations in order to reconcile the 2020 test year with the 2021 Annual Report.

### WATER LOSS

The Commission notes that in its 2021 Annual Report Bronston Water reported a water loss of 15.03 percent.<sup>6</sup> Commission regulation 807 KAR 5:066(6)(3) states that for

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

<sup>5</sup> The 2021 Annual Report was filed March 29, 2022.

<sup>6</sup> 2021 Annual Report at 58.

ratemaking purposes a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations.<sup>7</sup> The total annual cost of water loss to Bronston Water at 15.03 percent is \$38,263.<sup>8</sup> The annual cost to Bronston Water for water loss above the allowable 15 percent is \$64.<sup>9</sup>

Using its pro forma test-year operations, Bronston Water determined that a revenue increase of \$126,193 or 15.64 percent over test-year normalized revenues of \$806,623 was warranted.<sup>10</sup> The revised rates requested by Bronston Water would

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<sup>7</sup> Commission regulation 807 KAR 5:066(6)(3), Unaccounted-for water loss. Except for purchased water rate adjustments for water districts and water associations, and rate adjustments pursuant to KRS 278.023(4), for rate making purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water used by a utility in its own operations. Upon application by a utility in a rate case filing or by separate filing, or upon motion by the commission, an alternative level of reasonable unaccounted-for water loss may be established by the commission. A utility proposing an alternative level shall have the burden of demonstrating that the alternative level is more reasonable than the level prescribed in this section.

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	Purchased Water	Purchased Power
Pro Forma Expenses	\$ 249,480	\$ 5,176
Multiplied: Total Water loss	15.03%	15.03%
Total Water Loss	<u>37,485</u>	<u>778</u>
Total		<u><u>\$ 38,263</u></u>

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	Purchased Water	Purchased Power
Pro Forma Expenses	\$ 249,480	\$ 5,176
Multiplied by: Water loss Above 15 Percent	0.03%	0.03%
Excess Water Loss Reductions	<u>63</u>	<u>1</u>
Total		<u><u>\$ 64</u></u>

<sup>10</sup> Application, Attachment 4, Revenue Requirements Calculation.

increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$6.35 from \$40.65 to \$47.00 or approximately 15.61 percent.<sup>11</sup>

	<u>Bronston Water Association</u>
Pro Forma Operating Expenses	\$ 742,477
Plus: Avg. Annual Principal and Interest Payments	182,219
Additional Working Capital	<u>36,444</u>
Total Revenues Requirement	961,140
Less: Other Operating Revenue	(24,397)
Interest Income	<u>(3,927)</u>
Revenue Required From Water Sales	932,816
Revenue from Sales at Present Rates	<u>(806,623)</u>
Required Revenue Increase	<u>\$ 126,193</u>
Percentage Increase	<u><u>15.64%</u></u>

To determine the reasonableness of the rates requested by Bronston Water, Commission Staff performed a limited financial review of Bronston Water’s test-year operations. The scope of Commission Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable<sup>12</sup> changes to test-year operations were identified and adjustments made

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<sup>11</sup> Application, Attachment 1, Customer Notice.

<sup>12</sup> Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes.” See also Case No. 2001-00211, *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).

when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's findings are summarized in this report. William Foley reviewed the calculation of Bronston Water's Overall Revenue Requirement. Elizabeth Stefanski reviewed Bronston Water's reported revenues and rate design.

### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Bronston Water's required revenue from rates is \$911,431 to meet the Overall Revenue Requirement of \$931,487, and that a \$83,978 revenue increase, or 10.15 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon its application, Bronston Water proposed to increase all of its monthly retail water service rates evenly across the board by approximately 15.64 percent. Bronston Water did not perform a cost of service study (COSS). Bronston Water stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS.<sup>13</sup>

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff

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<sup>13</sup> Bronston Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 15, 2022), Item 14.

followed the method proposed by Bronston Water and allocated the \$83,978 revenue increase across the board to Bronston Water's monthly retail and wholesale water service rates.

The rates set forth in Appendix A to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$911,431 Revenue Required from Water Sales, an approximate 10.15 percent increase. These rates will increase a typical residential customer's monthly water bill from \$40.65 to \$44.77, an increase of \$4.12 or approximately 10.12 percent.<sup>14</sup>

3. Nonrecurring Charges. Following the Commission's recent decisions,<sup>15</sup> Commission Staff has reviewed Bronston Water's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Bronston Water provided cost justification information for the Nonrecurring Charges.<sup>16</sup> Commission Staff reviewed the cost justification information provided by Bronston Water and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. The Cost Justification sheets provided by Bronston Water for the Connection/Turn-on charge,

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<sup>14</sup> The typical residential customer uses approximately 4,000 gallons per month.

<sup>15</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

<sup>16</sup> Bronston Water's Supplemental Response to Staff's First Request, Item 8.

Meter Reset charge, and Service Call/Investigation charge miscalculated Transportation Expense as 30 miles at \$0.585<sup>17</sup> per mile to be \$13.50, but the product of the calculation is \$17.55. Commission Staff corrected the calculation to equal \$17.55 for each of the nonrecurring charges listed below. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Connection Turn-On Charge	\$ 30.00	\$ 18.00
Re-connection Charge	50.00	21.00
Meter Reset Charge	75.00	26.00
Returned Check Charge	30.00	20.00
Service Call/Investigation	15.00	18.00

Bronston Water requested the removal of the Field Collection Charge, Meter Read Charge, and the Service Line Inspection charge that are listed in the current tariff,<sup>18</sup> stating that Bronston Water no longer charges for these services.<sup>19</sup> Commission Staff agrees that these charges should be removed from the tariff because Bronston Water does not charge customers for these services.

4. Accounting Software. Bronston Water provided an Excel workbook that records monthly sub-totals and a combined yearly total instead of a formal General Ledger.<sup>20</sup> Commission Staff spoke to Bronston Water about the lack of a proper General Ledger and discovered that Bronston Water does not use any form of accounting

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<sup>17</sup> <https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2022>

<sup>18</sup> Bronston Water's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 6, 2022), Item 5.

<sup>19</sup> Bronston Water's Response to Staff's Second Request, Item 5.

<sup>20</sup> Bronston Water's Supplemental Response to Staff's First Request, Item 1a.; 1a\_General\_Ledger\_2020.xlsx, 1a\_General\_Ledger\_2021.xlsx, and 1a\_General\_Ledger\_2022.xlsx.

software. Instead, it uses a “home-made” method of record keeping instituted over 20 years ago. This has resulted in Bronston Water’s Certified Public Accountant (CPA) being required to create an Adjusted Trial Balance by hand rather than allowing computer software to generate one. This created several difficulties for Commission Staff when it attempted to analyze the financial records of Bronston Water. Therefore, Commission Staff recommends that the Commission require Bronston Water to obtain accounting software and follow the Uniform System of Accounts for Class A/B Water Systems (USoA).

#### PRO FORMA OPERATING STATEMENT

As discussed above, Bronston Water’s Pro Forma Operating Statement for the test year ended December 31, 2020, was adjusted to reconcile with the calendar year ended December 31, 2021, based upon the 2021 Annual Report submitted to the Commission.<sup>21</sup> Bronston Water’s Pro Forma Operating Statement, as determined by Commission Staff, appears below.

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<sup>21</sup> 2021 Annual Report.

	2020 Test Year	2020 to 2021 Reconciliation Adjustments	Test Year Adjusted for 2021 Actual	Commission Staff's Adjustment	(Ref.)	Commission Staff's Pro Forma
<b>Operating Revenues</b>						
Total Metered Water Sales	\$ 816,495	\$ 26,705	\$ 843,200	\$ (3,198)	(A)	
				(12,549)	(B)	\$ 827,453
Other Water Revenues				15,422	(B)	15,422
Forfeited Discounts				(4,202)	(C)	2,457
Miscellaneous Service Revenues		6,659	6,659			
<b>Total Operating Revenues</b>	<b>816,495</b>	<b>33,364</b>	<b>849,859</b>	<b>(4,527)</b>		<b>845,332</b>
<b>Operating Expenses</b>						
<b>Operation and Maintenance Expenses</b>						
Salaries and Wages - Employees	135,276	(3,657)	131,619	39,685	(D)	171,304
Salaries and Wages - Officers	8,050	650	8,700	300	(E)	9,000
Employee Pensions and Benefits	6,655	(713)	5,942	(1,286)	(F)	4,656
Purchased Water	318,360	(57,661)	260,699	(11,219)	(G)	
				(63)	(H)	249,417
Purchased Power	5,064	112	5,176	(1)	(H)	5,175
Materials and Supplies	26,134	(5,487)	20,647	-	(I)	20,647
Contractual Services- Accounting	12,650		12,650			12,650
Contractual Services- Other	6,481	(2,278)	4,203	-	(I)	4,203
Transportation Expenses	6,773	154	6,927			6,927
Insurance- General Liability	17,113	(1,724)	15,389			15,389
Insurance- Worker's Compensation	754	1,790	2,544			2,544
Insurance- Other		99	99			99
Bad Debt Expense	2,348	2,123	4,471			4,471
Miscellaneous Expense	30,444	(659)	29,785			29,785
<b>Total Operation and Maintenance Expenses</b>	<b>576,102</b>	<b>(67,251)</b>	<b>508,851</b>	<b>27,416</b>		<b>536,267</b>
Depreciation	231,298	(153)	231,145	(75,268)	(J)	155,877
Taxes Other Than Income	13,680	(1,051)	12,629	3,036	(K)	15,665
<b>Utility Operating Expenses</b>	<b>821,080</b>	<b>(68,455)</b>	<b>752,625</b>	<b>(44,816)</b>		<b>707,809</b>
<b>Net Operating Income</b>	<b>(4,585)</b>	<b>101,819</b>	<b>97,234</b>	<b>40,289</b>		<b>137,523</b>
Interest and Dividend Income	3,927	(1,750)	2,177			2,177
<b>Income Available to Service Debt</b>	<b>\$ (658)</b>	<b>\$ 100,069</b>	<b>\$ 99,411</b>	<b>\$ 40,289</b>		<b>\$ 139,700</b>

(A) Billing Analysis Adjustment. In its application, Bronston Water proposed an adjustment of \$2,795 to increase Total Metered Retail Sales for 2020.<sup>22</sup> Bronston Water calculated the adjustment by creating a billing analysis for 2020,<sup>23</sup> and subtracting water leak adjustments of \$3,368<sup>24</sup> for a Net Water Sales total of \$806,623.<sup>25</sup> Bronston Water provided a revised billing analysis listing water usage and water sales revenue for the

<sup>22</sup> Application, Attachment 4, Adjustment B.

<sup>23</sup> Application, Attachment 5.

<sup>24</sup> Bronston Water's Response to Staff's First Request, Item 15b, 15b\_Adjustments.pdf..

<sup>25</sup> Application, Attachment 5.

12-month test year of 2021 of \$827,659.<sup>26</sup> This normalized amount included an adjustment for leaks of \$(3,308). Commission Staff revised the adjustment to \$(3,514) to include a \$206 overpayment adjustment.<sup>27</sup> The result is a normalized revenue amount of \$827,453. However, as explained below, the test year revenue from rates included late payment revenue of \$12,549. The net result is a decrease in test-year water sales revenue of \$3,198.

Meter Size	Bills	Gallons Sold	Revenue
5/8 inch	22,306	63,204,410	774,602
1 inch	180	3,259,150	27,683
2 inch	52	3,867,800	28,682
4 inch	-	-	0.00
<b>Total</b>			<b>\$830,967</b>
Less: Billing Adjustments			(3,514)
Pro Forma Normalized Revenue			<b>\$827,453</b>
Less: Test Year Adjusted for 2021 Actual			(843,200)
Plus: Late Payment Revenue			12,549
Metered Water Sales Adjustment			<u><u>\$ (3,198)</u></u>

(B) Late Payment Revenue. In its application, Bronston Water proposed an adjustment to the 2020 test year to increase Late Payment Penalties by \$11,730 in order to match the late fees collected in 2019.<sup>28</sup> Bronston Water provided detailed information

<sup>26</sup> Current\_Billing\_Analysis\_2021\_Corrected.pdf (filed Aug. 18, 2022).

<sup>27</sup> Bronston Water's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed July 25, 2022), Item 8b, 8b\_Adjustments.pdf.

<sup>28</sup> Application, Attachment 4, Adjustment C.

about the late fee revenue and occurrences for the calendar year 2021 late payment charges totaling \$12,549.<sup>29</sup> Bronston Water did not collect any late fee revenue for the months of January 2021 and February 2021, and during 2021, late payment revenue was recorded as part of Total Metered Water Sales. Therefore, since late payment revenue was included in test year revenue from rates, Commission Staff decreased Total Metered Water Sales by \$12,549. Further, because Bronston Water collected less than a full 12 months of Late Payment revenue in 2021, Commission Staff normalized the Late Payment Revenue based upon recent Commission precedent.<sup>30</sup> Bronston Water provided Commission Staff with the total annual late payment penalties collected from the three years prior to 2020.<sup>31</sup> Commission Staff calculated late payment penalties to closer align with a normal year by averaging the previous three years to an average of \$15,422 as shown below. As a result, Commission Staff increased Other Water Revenue by \$15,422 and decreased Metered Water Sales by \$12,549.

Year	Late Payment Revenue
2019	\$15,064
2018	15,486
2017	<u>15,716</u>
Three Year Total of Forfeited Discounts	46,265
Divided by three years	<u>3</u>

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<sup>29</sup> Bronston Water's Additional information requested by Staff, Late\_Fees\_and\_Occurrences\_2021.xlsx, (filed July 29, 2022).

<sup>30</sup> Case No. 2021-00475, *Electronic Application of Carroll County Water District No. 1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

<sup>31</sup> Bronston Water's Response to Staff's First Request, Item 3.

Pro Forma Adjustment \$15,422

(C) Miscellaneous Service Revenue. In its application, Bronston Water proposed an adjustment to decrease Metered Retail Sales and increase Miscellaneous Service Revenues by \$12,667 to reclassify Miscellaneous Service Revenues that were included as Metered Sales for the 2020 test year.<sup>32</sup> In 2021, Bronston Water reported \$6,659 of Miscellaneous Service Revenue.<sup>33</sup> Bronston Water provided information about the nonrecurring charges revenue for the test year of 2021.<sup>34</sup> Commission Staff recommended revising the nonrecurring charges in the section above, which will result in the adjustment calculated below for Miscellaneous Service Revenues of \$2,457. As a result, Commission Staff made an adjustment to decrease Other Water Revenue by \$4,202 as shown below.

Nonrecurring Charges	Number of Occurrences	Utility Pro Forma	Adjustment	Comm.Staff Pro Forma
Connection Turn-On Charge	28	840 <sup>35</sup>	(336)	504
Re-connection Charge	53	2,650	(1,537)	1,113
Meter Re-set Charge	20	1,500	(980)	520
Returned Check Charge	16	480 <sup>36</sup>	(160)	320
Difference between reported and calculated		1,189	(1,189)	
		<u>\$ 6,659</u>	<u>\$ (4,202)</u>	<u>\$ 2,457</u>

<sup>32</sup> Application, Attachment 4, Adjustment A.

<sup>33</sup> 2021 Annual Report at 49.

<sup>34</sup> Bronston Water's Response to Staff's Third Request, Item 3, 3\_Non-recurring\_Charges.

<sup>35</sup> Bronston Water's Response to Staff's Third Request, Item 4, 4\_Non-Recurring\_Charge\_Rate.xlsx and Item 5, 5\_New\_Connections\_and\_Type.xlsx.

<sup>36</sup> Bronston Water's Response to Staff's First Request, Item 9, and Bronston Water's Response to Staff's Third Request, Item 3, 3\_Non-recurring\_Charges.xlsx and Item 4, 4\_Non-Recurring\_Charge\_Rate.xlsx.

(D) Salaries and Wages - Employees. Bronston Water proposed an adjustment to increase the 2020 test year Salaries and Wages – Employees by \$28,023.<sup>37</sup> This adjustment was proposed to account for an increase in employee wages, the replacement of a former employee, and to reflect a salary change of one employee who retired and was subsequently rehired in a new position.

In the 2021 Annual Report, Bronston Water reported \$131,619 in salaries and wages.<sup>38</sup> Bronston Water provided a list of 2021 employee hours worked and current wages.<sup>39</sup> Based upon this information, Commission Staff calculated pro forma Salaries and Wages – Employees expense of \$171,304. Therefore, based on the revised 2021 salaries and wages, Commission Staff increased Salaries and Wages – Employees \$39,685 as shown below.

2021 Test Year hours with Current Wages								
Employee Position	Total Hours	Normalized Test Year Hours	Current Wages Rates	Pro Forma Normal Wages	Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages
Superintendent	1,820	1,820	Salary	\$ 37,366	-			\$ 37,366
Office Manager	1,820	1,820	\$ 21.83	39,731	-	\$ 32.75	\$ -	39,731
Asst. Superintendent	1,820	1,820	Salary	37,677	-		-	37,677
Assist. Office Manager	1,820	1,820	17.50	31,850	-	26.25	-	31,850
Secretary	1,567	1,567	15.75	24,680	-	23.63	-	24,680
Pro Forma Wages								\$ 171,304
Less: Test Year Adjusted for 2021 Actual								<u>(131,619)</u>
Pro Forma Adjustment								<u>\$ 39,685</u>

(E) Salaries and Wages- Officers. Bronston Water’s Board of Directors consists of five members who are paid between \$100 to \$250 per month.<sup>40</sup> Pursuant to

<sup>37</sup> Application, Attachment 4, Adjustment D.

<sup>38</sup> 2021 Annual Report, at 50.

<sup>39</sup> Bronston Water’s Supplemental Response to Staff’s First Request, Items 1f, 1f\_Employee\_Hours\_Worked.xlsx, and 1g, 1g\_Job\_Descriptions\_and\_Pay\_2021.xlsx.

<sup>40</sup> Bronson Water’s Supplemental Response to Staff’s First Request, Item 2.

KRS 273A.115 Section (2)(a), a water association may pay reasonable compensation to its board members for services rendered.<sup>41</sup> Commission Staff concludes that Bronston Water should be permitted to recover, for rate making purposes, the amount determined reasonable by the association and its members, who are the rate payers. During 2021, three commissioners were each paid \$100 per meeting and each missed one board meeting.<sup>42</sup> In order to normalized Commissioner Salaries, Commission Staff calculated the annual expense for Officers to be \$9,000 as shown below. Therefore, Commission Staff increased Salaries and Wages – Officers expense by \$300 from the 2021 Annual Report level of \$8,700.

Commissioners	Pro Forma Salaries
Eric Keith	\$ 250
Leland Keith	100
Matt Tucker	200
Clinton Keith	100
Alvin Morrow	100
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Total	750
Multiplied by: 12 months	12
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Total Commissioners Salaries	9,000
Less: Test Year Adjusted for 2021 Actual	(8,700)
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Adjustment	<u>\$ 300</u>

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<sup>41</sup> Ky. Rev. Stat. 273A.115 Section (2)(a), An unincorporated nonprofit association may: Pay reasonable compensation or re imbursement reasonable expenses to a member or manager for services rendered.

<sup>42</sup> Bronston Water’s Supplemental Response to Staff’s First Request, Item 2, 2\_Directors\_Attendance.xlsx..

(F) Employee Pensions and Benefits. During 2021, Bronston Water recorded \$5,942 in expenses related to an Aflac policy that Bronston Water provides to its employees.<sup>43</sup> Bronston Water currently pays 100 percent for Employee's Single Aflac benefits.<sup>44</sup> In its application, Bronston Water proposed to reduce 2020 pro forma Employee Pensions and Benefits by \$1,131 to be consistent with the Bureau of Labor Statistics' national average for an employer's share of health insurance premiums.<sup>45</sup> Subsequent to the 2020 test year, two full-time employees quit or retired, one new employee was hired, and one employee was rehired in a new position.<sup>46</sup> Commission Staff notes that the Commission has consistently made ratemaking adjustments to reduce the cost of employer-sponsored healthcare paid by some utilities when certain aspects of those benefit packages were found to be unreasonable based on a review of total salaries and fringe benefits. Bronston Water supplied the most recent billing statement for the Aflac policy.<sup>47</sup>

Consistent with precedent in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee's health insurance coverage, Commission Staff modified Bronston Water's proposal and reduced Bronston Water's single health insurance premiums by 22 percent for the 2021 test year as shown in the calculation

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<sup>43</sup> Bronston Water's Response to Staff's First Request, Item 1a\_Trial\_Balance\_2021.pdf.

<sup>44</sup> Bronston Water's Supplemental Response to Staff's First Request, Item 1h, 1h\_Employee\_Benefits.xlsx.

<sup>45</sup> Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment E.

<sup>46</sup> Bronston Water's Response to Supplemental Response to Staff's First Request, 1f.

<sup>47</sup> Bronston Water's Response to Staff's Second Request, Items 3a.

below.<sup>48</sup> Accordingly, Commission Staff decreased Employee Pensions and Benefits by \$1,286.

<u>Type of Premium</u>	<u>Employer Contributions</u>	<u>Average Employee Contribution Rate</u>	<u>Monthly Premium Adjustment</u>	<u>Pro Forma Monthly Premium</u>
Single Aflac Premiums	\$ 498	22%	\$ (110)	\$ 388
Total Pro Forma Monthly Premium				388
Multiplied by: 12 Months				<u>12</u>
Total Annual Pro Forma Premium				4,656
Less: Test Year Adjusted for 2021 Actual				<u>(5,942)</u>
Employee Pension and Benefits Adjustment				<u>\$ (1,286)</u>

(G) Purchased Water. Bronston Water proposed no adjustment for Purchased Water for the 2020 Test year. Bronston Water reported a 2021 purchased water expense of \$260,699.<sup>49</sup> Bronston Water supplied the 2021 gallons purchased<sup>50</sup> and the current per gallon purchase rate.<sup>51</sup> Commission Staff spoke with Bronston Water’s CPA who indicated that purchased water expense was adjusted based on accrual balances associated with Bronston Water’s accounts payable. As a result, the 2021 financial statement was overstated by \$11,219. In order to normalize Purchased Water Expense, Commission Staff recalculated Pro Forma Purchased Water using the 2021 gallons purchased with the current rate and decreased purchased Water expense by \$11,219 as shown below.

<sup>48</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>49</sup> 2021 Annual Report at 50.

<sup>50</sup> Bronston Water’s Response to Staff’s Third Request, Item 2, 2\_Water\_Purchased.xlsx.

<sup>51</sup> Bronston Water’s Response to Staff’s First Request, Item 6, 6\_New\_Connection\_Revenue.xlsx.

2021 Purchased Water			
Period	Gallons Purchased	Price per Gallon	Total
Jan-2021	7,546,300	\$ 0.002795	\$ 21,092
Feb-2021	7,037,000	0.002795	19,668
Mar-2021	7,272,300	0.002795	20,326
Apr-2021	6,927,700	0.002795	19,363
May-2021	6,749,000	0.002795	18,863
Jun-2021	8,366,400	0.002795	23,384
Jul-2021	9,102,700	0.002795	25,442
Aug-2021	7,530,500	0.002795	21,048
Sep-2021	7,860,400	0.002795	21,970
Oct-2021	7,744,300	0.002795	21,645
Nov-2021	6,358,800	0.002795	17,773
Dec-2021	6,763,900	0.002795	18,905
Total Purchased Water Expense			249,480
Less: Test Year Adjusted for 2021 Actual			<u>(260,699)</u>
Pro Forma Purchased Water Adjustment			<u><u>\$(11,219)</u></u>

(H) Expenses Attributable to Excess Water Loss. During 2021, Bronston Water reported water loss of 15.03 percent.<sup>52</sup> As mentioned earlier in the report, Commission regulations prohibit the recovery of expenses for water loss in excess of 15 percent. When Adjustment (G) is included in the Purchased Water Calculation for expenses attributable to water loss, it results in a net decrease to Purchased Water Expense of \$60 and Purchased Power Expense of \$1 as shown in the table below.

<sup>52</sup> 2021 Annual Report at 58.

	Purchased Water	Purchased Power
Pro Forma Expenses	\$249,480	\$ 5,176
Multiplied by: Water loss Above 15 Percent	0.03%	0.03%
Excess Water Loss Reductions	63	1
Total		\$ 64

(I) Expenses Related to Meter Installations. In its application, Bronston Water proposed an adjustment to the 2020 test year to decrease Materials and Supplies by \$13,125 and Contractual Services – Other by \$5,625 to account for tapping fees that were misclassified as an expense.<sup>53</sup> During 2021, Bronston Water installed 29 new water connections.<sup>54</sup> The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.<sup>55</sup> Commission Staff spoke to Bronston Water’s accountant and determined that during 2021, Bronston Water recorded the labor and materials expenses as assets instead of expenses. Therefore, Commission Staff made no adjustment for expenses related to meter installation.

(J) Depreciation Expense. In its application, Bronston Water proposed an adjustment to decrease the 2020 test year Depreciation by \$88,025 in order to bring asset lives to the National Association of Regulatory Utility Commissioners (NARUC)

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<sup>53</sup> Application, Attachment 4, Adjustment F.

<sup>54</sup> Bronston Water’s Response to Staff’s Third Request, Item 5, 5\_New\_Connections\_and\_Type.xlsx.

<sup>55</sup> USoA, Accounting Instruction 19 and 33.

midpoint.<sup>56</sup> In 2021, Bronston Water reported Depreciation Expense of \$231,146.<sup>57</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the NARUC entitled Depreciation Practices for Small Water Utilities (NARUC Study). When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Commission Staff agrees with the methodology Bronston Water proposes, however, upon examination, Commission Staff calculated a different adjustment amount. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. After further review of Bronston Water's plant ledger, Commission Staff decreased Bronston Water's Depreciation Expense by \$75,268 to \$155,877 as shown below.

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<sup>56</sup> Application, Attachment 4, Adjustment G.

<sup>57</sup> Cover letter and 2021 Depreciation Schedule, (filed Aug. 5, 2022).

Asset Group	2021 Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Structures and Improvements	\$ 944	\$ (501)	\$ 443
Communication & Computer Eqmt.	364	44	408
Pumping Equipment	382	1	383
Hydrants	134	(88)	46
Transmission & Distribution Mains	168,118	(54,616)	113,502
Meter Installation	19,051	(2,009)	17,042
Services	474	(1)	473
Reservoirs & Tanks	32,011	(17,387)	14,624
Transportation Equipment	9,667	(710)	8,957
<b>Total</b>	<b>\$ 231,145</b>	<b>\$ (75,268)</b>	<b>\$ 155,877</b>

(K) Taxes Other Than Income - FICA. In its application, Bronston Water proposed an adjustment to increase 2020 test year Taxes Other Than Income by \$1,280 in order to account for the increase in payroll taxes due to the increase in Salaries and Wages Expense.<sup>58</sup> However, as explained in Adjustment (E) above, Commission Staff calculated 2021 test year pro forma Salaries and Wages expense of \$171,304. Therefore, Commission Staff calculated an increase to Taxes Other Than Income of \$3,036 as shown below.

Taxes other than Income- FICA	
Pro Forma Salaries and Wages Expense	\$ 171,304
Multiplied by: 7.65 Percent FICA Rate	<u>7.65%</u>
Pro Forma Payroll Taxes	13,105
Less: Test Year Adjusted for 2021 Actual	<u>(10,069)</u>
Payroll Tax Adjustment	<u>\$ 3,036</u>

<sup>58</sup> Application, Attachment 4, Adjustment H.

OVERALL REVENUE REQUIREMENT AND  
REQUIRED REVENUE INCREASE

The Commission has historically applied a DSC method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;<sup>59</sup> (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

	<u>Bronston Water Association</u>	<u>Staff</u>	
Pro Forma Operating Expenses	\$ 742,477	\$ 707,809	
Plus: Avg. Annual Principal and Interest Payments	182,219	186,398	(1)
Additional Working Capital	<u>36,444</u>	<u>37,280</u>	(2)
 Total Revenues Requirement	 961,140	 931,487	
Less: Other Operating Revenue	(24,397)	(17,879)	
Interest Income	<u>(3,927)</u>	<u>(2,177)</u>	(3)
 Revenue Required From Water Sales	 932,816	 911,431	
Revenue from Sales at Present Rates	<u>(806,623)</u>	<u>(827,453)</u>	
 Required Revenue Increase	 <u>\$ 126,193</u>	 <u>\$ 83,978</u>	
Percentage Increase	<u>15.64%</u>	<u>10.15%</u>	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Bronston Water had six outstanding United States

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<sup>59</sup> The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

Department of Agriculture, Rural Development (RD) promissory notes. In its application, Bronston Water requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2022 through 2026.<sup>60</sup> However, because the statutory date for a final Order to be issued in this proceeding is February 10, 2023, the 2022 payments will be recovered through Bronston Water's existing rates. Therefore, only Debt Service payments that will be made after the new rates are placed into effect should be considered in determining Bronston Water's Annual Principal and Interest expense. Commission Staff calculated the average annual principal and interest on a five-year average for the years 2023 through 2027. As shown in Appendix B, Commission Staff calculated an Average Principal and Interest of \$186,398.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Bronston Water requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its bonds payable to the RD at the time of its application in this calculation Bronston Water used 120 percent to calculate the Additional Working Capital.

RD requires Bronston Water to charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission's historic practice, Commission Staff agrees with Bronston Water's revised methodology. Therefore, \$37,280 is included in the revenue requirement.

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<sup>60</sup> Application, Attachment 4, Debt Service Schedule.

Average Annual Principal and Interest Times: DSC Coverage Ratio	\$ 186,398 <u>120%</u>
Total Net Revenues Required	223,678
Less: Average Annual Principal and Interest Payments	<u>(186,398)</u>
Additional Working Capital	<u>\$ 37,280</u>

3. Interest Income. In its application, Bronston Water reported an interest income of \$3,927.<sup>61</sup> Based upon the revised test year of 2021, Commission Staff updated the Interest Income to \$2,177<sup>62</sup> to reflect the correct test year.

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<sup>61</sup> Application, Attachment 4, Debt Service Schedule.

<sup>62</sup> Bronston Water's Response to Staff's First Request, Item 1a, 1a\_Trial\_Balance\_2021.pdf.

Signatures

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Division of Financial Analysis

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APPENDIX A

APPENDIX TO A COMMISSION STAFF'S REPORT OF THE KENTUCKY  
PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00117 DATED AUG 24 2022

Monthly Water Rates

5/8- X 3/4-Inch Meter

First	1,500 Gallons	24.44	Minimum Bill
Over	1,500 Gallons	0.00813	Per Gallon

1-Inch Meter

First	5,000 Gallons	50.72	Minimum Bill
Over	5,000 Gallons	0.00813	Per Gallon

2-Inch Meter

First	20,000 Gallons	134.30	Minimum Bill
Over	20,000 Gallons	0.00813	Per Gallon

4-Inch Meter

First	50,000 Gallons	310.76	Minimum Bill
Over	50,000 Gallons	0.00813	Per Gallon

Nonrecurring Charges

Late Payment Charge	10%
Connection Turn-On Charge	\$18.00
Meter Relocation Charge	Actual
Meter Test Charge	\$65.00
Re-connection Charge	\$21.00
Meter Re-set Charge	\$26.00
Returned Check Charge	\$20.00
Service Call/Investigation	\$18.00

## APPENDIX B

### APPENDIX TO A COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSIONIN CASE NO. 2022-00117 DATED AUG 24 2022

Year	2022-2026 Five-Year Average of Debt Payments												Total
	2003 Issue Loan <sup>1</sup>		2008 Issue Loan <sup>2</sup>		2010 Issue Loan <sup>3</sup>		2014 Issue Loan <sup>4</sup>		2017 Issue Loan <sup>5</sup>		2021 Issue Loan <sup>6</sup>		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2023	\$ 9,331	\$13,032	\$15,620	\$29,059	\$ 9,504	\$9,471	\$16,083	\$13,060	\$26,673	\$24,429	\$ -	\$9,713	\$175,975
2024	9,728	12,636	16,264	28,415	9,741	9,233	16,385	12,758	27,173	23,929	10,406	9,713	186,381
2025	10,142	12,222	16,935	27,744	9,985	8,989	16,692	12,451	27,683	23,420	10,588	9,530	186,381
2026	10,573	11,791	17,633	27,045	10,235	8,740	17,005	12,138	28,202	22,901	10,774	9,345	186,382
2027	11,022	11,342	18,361	26,318	10,490	18,974	17,324	11,819	28,731	22,372	10,962	9,157	196,872
Total												931,991	
Divide by: 5 years												5	
Average Annual Principal and Interest Payment												<u>\$186,398</u>	

<sup>1</sup> Case 2003-00193, *Water Line, Booster Pump Station, Water Storage Tank* (Ky. PSC June 16, 2003).

<sup>2</sup> Case 2007-00545, *Construct, Finance and Increase Rates* (Ky. PSC Jan. 11, 2008).

<sup>3</sup> Case 2010-00372, *Application Of Bronston Water Association, Inc. of Wayne and Pulaski Counties, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023* (Ky. PSC Oct. 13, 2010).

<sup>4</sup> Case 2014-00029, *Application of Bronston Water Association, Inc. of Wayne and Pulaski Counties, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023* (Ky. PSC Mar. 7, 2014).

<sup>5</sup> Case 2017-00138, *Application of Bronston Water Association, Inc. for a Certificate Of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023* (Ky. PSC May 3, 2017).

<sup>6</sup> Case 2020-00416, *Electronic Application of Bronston Water Association, Inc. 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. 4, 2021).

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