

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF UNION)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2022-00160
ALTERNATIVE RATE ADJUSTMENT)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's December 6, 2022 Order in this proceeding, Commission Staff was to file its report on or before December 20, 2022. Commission Staff regrets it was unable to meet the deadline for its report, but submits its findings at this time. Pursuant to the Commission's July 22, 2022 and December 6, 2022 Orders, Union County Water District 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 Union District to the Commission's November 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



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

DATED JAN 20 2023
cc: Parties of Record

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

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COMMISSION STAFF'S REPORT
ON UNION COUNTY WATER DISTRICT

Union County Water District (Union District), a water district organized pursuant to KRS Chapter 74, provides water service to approximately 2,299 residential, commercial, and industrial customers in Union County, Kentucky.¹ Union District also provides wholesale water service to the city of Sturgis (Sturgis).²

In the final Order for Case No. 2021-00180,³ Union District was ordered to file a rate application by December 7, 2021. On December 21, 2021, Union District filed a motion requesting an additional 180 days within which to file its application for an alternative rate adjustment. In its March 29, 2022 Order in Case No. 2021-00180, the Commission granted Union District's requested extension to submit its ARF application on or before July 7, 2022.

On June 3, 2022, Union District tendered its application to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076 using the calendar year

¹ *Annual Report of Union District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

² 2021 Annual Report at 56.

³ Case No. 2021-00180, *Electronic Purchased Water Adjustment Filing of Union County Water District* (Ky. PSC June 7, 2021).

2020 as its test year (Initial Application). By letter dated June 6, 2022, the Commission rejected Union District's application because the calendar year 2020 test year did not comply with the requirements established in 807 KAR 5:076, Section 1 (2)(a) and (2)(b).⁴ On June 23, 2022, Union District filed an amended application with a calendar year 2021 test year (Amended Application). The Amended Application cured the filing deficiency, and the Amended Application was deemed filed as of July 7, 2022.

The Commission established a procedural schedule on July 22, 2022, which was subsequently amended on November 22, 2022, and December 6, 2022 to extend the date for filing the Commission Staff Report. The Commission granted the request to intervene from Sturgis by Order entered on August 29, 2022. Sturgis did not propound discovery requests to Union District and has not actively participated in this proceeding through the date of this Commission Staff Report. Union District responded to three rounds of discovery from Commission Staff.

In its Initial Application, Union District calculated its requested rates using the Debt Service Coverage (DSC) method which demonstrated that its pro forma operations support an increase in revenues from water rates of \$141,014, or 9.46 percent.⁵ In its Amended Application, Union District requested an increase in revenues from water rates of \$224,217, or 15.30 percent based on the DSC method,⁶ but also provided the revenue

⁴ 807 KAR 5:076, Section 1 (2)(a) The calendar year period prior to the year in which the applicant's application for rate adjustment is filed with the commission; or (b) 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.

⁵ Initial Application, Attachment 4, Revenue Requirements.

⁶ Amended Application, Attachment 4, Revenue Requirements Using Debt Service Coverage Method.

requirement calculation using the operating ratio method, which supported a revenue increase of \$611,453, or 41.73 percent.⁷ In this report, Commission Staff is recommending an increase in revenues from water rates of \$174,035, or 10.78 percent using the DSC methodology, and not the operating ratio methodology for the reasons explained below.

WATER LOSS

Pursuant to 807 KAR 5:066 (6)(3), water loss is limited to 15 percent for ratemaking purposes. Commission Staff notes that Union District reported a water loss of 19.38 percent in its 2021 Annual Report.⁸ At a 19.38 percent water loss, the annual cost of water loss in excess of 15 percent is \$45,339 and the total annual cost of water loss to Union District is \$200,610, as calculated in the table below.

	Purchased Water	Purchased Power	Total
Purchased Water and Power expenses	\$ 952,550	\$ 82,590	\$ 1,035,140
Multiplied by: Water Loss Percentage in Excess of 15%	4.38%	4.38%	4.38%
Cost of Water Loss in Excess of the 15% Limit	<u>\$ 41,722</u>	<u>\$ 3,617</u>	<u>\$ 45,339</u>
Purchased Water and Power expenses	\$ 952,550	\$ 82,590	\$ 1,035,140
Multiplied by: Test- Year Water Loss Percentage	19.38%	19.38%	19.38%
Total Cost of Water Loss	<u>\$ 184,604</u>	<u>\$ 16,006</u>	<u>\$ 200,610</u>

TEST YEAR

To comply with the requirements of 807 KAR 5:076, Section 9,⁹ Union District used the calendar year ended December 31, 2021, as the basis for its Amended Application.¹⁰

⁷ Amended Application, Attachment 4, Revenue Requirements Using Operating Ratio Method.

⁸ 2021 Annual Report at 57.

⁹ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

¹⁰ Amended Application at 3.

DISCUSSION

The Commission Staff reviewed the Initial Application and analyzed the revenue requirement for the Union District utilizing the DSC method and operating ratio method, consistent with the methodology in Union District's Amended Application. For reasons discussed throughout this Commission Staff Report, Commission Staff determined that the revenue requirement should be calculated using the DSC methodology. The DSC method is historically used by the Commission and combines a utility's pro forma test-year operation expenses and Debt Service payments. Using the DSC method as proposed in its Amended Application, Union District determined it could justify a revenue increase of \$224,217, or 15.30 percent.¹¹ However, Commission Staff observed that Union District failed to include the revenue from the sales for resale in its calculation of the percentage amount of the increase although the amount of revenue needed was correct. Commission Staff corrected Union District's calculation to include the revenue from the sales for resale, resulting in a 14.03 percentage rather than a 15.30 percent increase in revenues. The table below is a comparison of Union District's revenue requirement calculation in its Amended Application to Commission Staff's corrected calculation.

	<u>Amended Application</u>	<u>Commission Staff Corrected</u>
Pro Forma Operating Expenses	\$ 1,920,435	\$ 1,920,435
Plus: Average Annual Debt Service	9,600	9,600
Debt Service Coverage Requirement	<hr/>	<hr/>
Overall Revenue Requirement	1,930,034	1,930,035
Less: Other Operating Revenue	(105,401)	(105,401)

¹¹ Amended Application, Attachment 4, unnumbered page 2, Revenue Requirements Using Debt Service Coverage Method. $\$224,216$ (Revenue Increase – DSC) \div $\$1,465,109$ (Normalized Revenues Water Sales) = 15.30%.

Nonutility Income	(1,944)	(1,944)
Revenue Required from Water Sales	1,822,689	1,822,690
Less: Revenues from Retail Water Sales	(1,465,109)	(1,465,109)
Sales for Resale	(133,364)	(133,364)
Required Revenue Increase	<u>\$ 224,216</u>	<u>\$ 224,217</u>
Percentage Increase	<u>15.30%¹²</u>	<u>14.03%¹³</u>

As a means of comparison, Union District included in its Amended Application the computation of its revenue requirement using the operating ratio method.¹⁴ Union District acknowledged that because it has a relatively low level of outstanding long-term debt, the operating ratio method produced a significantly higher revenue increase of \$611,453, or 41.73 percent.¹⁵ As discussed above, Union District failed to include the sales for resale in its calculation of the revenue increase and the percentage increase and Commission Staff corrected Union District's calculation to include the revenue from the sales for resale resulting in a requested increase in revenues of \$478,090, or 29.91 percent. The table below is a comparison of Union District's original revenue requirement calculation using the operating ratio method to Commission Staff's corrected calculation.

	Amended Application	Commission Staff Corrected
Pro Forma Operating Expenses	\$ 1,920,435	\$ 1,920,435
Divide by: Operating Ratio	88%	88%
Subtotal	<u>2,182,313</u>	<u>2,182,313</u>
Add: Average Annual Interest Expense	<u>1,594</u>	<u>1,595</u>

¹² Amended Application, Attachment 4, unnumbered page 2, Revenue Requirements Using Debt Service Coverage Method. Calculation in Application: \$224,216 (Revenue Increase – DSC) ÷ \$1,465,109 (Normalized Revenues Water Sales) = 15.30%.

¹³ Amended Application, Attachment 4, unnumbered page 2, Revenue Requirements Using Debt Service Coverage Method. Corrected Calculation: \$224,216 (Revenue Increase – DSC) ÷ [\$1,465,109 (Normalized Revenues Water Sales) + \$133,364 (Sales for Resale)] = 14.03%.

¹⁴ Amended Application, June 23, 2022, cover letter, unnumbered page 1.

¹⁵ Amended Application, Attachment 4, unnumbered page 2, Revenue Requirements Using the Operating Ratio Method. \$611,453 (Revenue Increase – Operating Ratio) ÷ \$1,465,109 (Normalized Revenues Water Sales) = 41.73%.

Total Revenue Requirement	2,183,907	2,183,908
Less: Other Operating Revenue	(105,401)	(105,401)
Nonutility Income	(1,944)	(1,944)
Revenue Required from Rates	2,076,562	2,076,563
Less: Revenues from Water Sales	(1,465,109)	(1,598,473)
Required Revenue Increase	\$ 611,453	\$ 478,090
Percentage Increase	41.73% ¹⁶	29.91% ¹⁷

Union District claimed that the operating ratio method would allow it to have the funds available to construct, operate, and maintain its water system.¹⁸ Union District requested that if the Commission calculates its revenue requirement using the operating ratio method, there should be a three-year rate phase-in.¹⁹

To determine the reasonableness of the rates requested by Union District, Commission Staff performed a limited financial review of Union District’s test-year operations. The scope of Commission Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable²⁰ changes to test-year operations were identified, and adjustments were

¹⁶ Amended Application, Attachment 4, unnumbered page 2, Revenue Requirements Using Operating Ratio Method. Calculation in the Application: \$2,076,562 (Revenue Required from Rates) - \$1,465,109 (Normalized Revenues Retail Water Sales) = \$611,453 (Revenue Increase – Operating Ratio) ÷ \$1,465,109 (Normalized Revenues Retail Water Sales) = 41.73%.

¹⁷ Amended Application, Attachment 4, unnumbered page 2, Revenue Requirements Using Operating Ratio Method. Corrected Calculation: \$2,076,563 (Revenue Required from Rates) - \$1,598,473 [\$1,465,109 (Normalized Revenues Water Sales) + \$133,364 (Sales for Resale)] = \$478,090 (Revenue Increase – Operating Ratio) ÷ \$1,598,473 [\$1,465,109 (Normalized Revenues Water Sales) + \$133,364 (Sales for Resale)] = 29.91%.

¹⁸ Amended Application, June 23, 2022 cover letter, unnumbered page 1.

¹⁹ Amended Application, June 23, 2022 cover letter, unnumbered page 1.

²⁰ Commission regulation 807 KAR 5:076, Section 9 sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes.” See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern*

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

Commission Staff's recommendations are summarized in this report. Mark Frost reviewed Union District's Pro Forma Operating Expenses and its Overall Revenue Requirement. Jason Green reviewed Union District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, as generally accepted by the Commission, Commission Staff calculated that Union District requires revenue from water rates of \$1,788,978 to meet the Overall Revenue Requirement of \$1,849,973. To meet the Overall Revenue Requirement, Union District requires a \$174,035, or 10.78 percent, revenue increase to Pro Forma present rate revenues. The Commission Staff's revenue requirement calculation using the DSC method includes the full recovery of pro forma depreciation expense of \$295,766, as shown in the calculation below.

In requesting its rate increase using the DSC method, Union District recognized the impact the operating ratio method would have on its requested rate increase and ultimately its working capital. Union District talked in general terms of the benefits that a larger working capital would have on its ability to fund future capital projects. However, Union District did not provide specific uses of the additional funds that would be generated

Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds (Ky. PSC June 25, 2003); and Case No. 2017-00417, Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works (Ky. PSC July 12, 2018).

if rates were approved that increased the amount of working capital, such as those calculated using the revenue requirement impact utilizing the operating ratio method.

Appendix B provides a comparison of Union District’s revenue requirements using operating ratios ranging from 88 percent to 92 percent with the associated working capital allowance produced by each. Additionally, the comparison shows the financial impact that the operating ratio method would have on Union District’s customer base. The comparison also shows that the higher rates resulting from the use of the operating ratio would produce a level of working capital that Union District did not request. In this instance, calculating Union District’s revenue requirement using the DSC methodology produces a working capital allowance of \$250,437 as calculated in the table below.

Total Revenue Requirement - DSC	\$ 1,849,973
Less: Pro Forma Operating Expenses	(1,840,373)
Less: Line Loss Adj	(45,339)
Less: Annual Debt Service	(9,600)
Add: Non Cash Items (Depreciation)	295,776
Total Working Capital	<u>\$ 250,437</u>

The Commission Staff concludes that the DSC method produces a level of operating revenues that will allow Union District to pay its cash-related pro forma operating expenses and to cover its annual debt service payments, while providing a sufficient level of working capital to allow Union District to operate and to maintain its system. Commission Staff recommends that the Commission direct Union District to perform annual financial reviews to insure that its water rates remain adequate and to file a rate case in three years if the annual review does not indicate that a rate case should be filed sooner. In its future rate case Union District should be directed to calculate its revenue requirement using either the DSC method as commonly accepted by the Commission or the operating ratio method. Union District should be prepared to show

that the revenue requirement method chosen will produce an adequate level of working capital. Commission Staff recognizes that additional revenues generated would allow Union district to address its increasing water loss through maintenance and capital construction. However, the Commission Staff believes Union District needs a robust plan to address capital construction. Union District should also be prepared to present a detailed capital construction plan showing how the working capital produced under each methodology would be used to fund its identified construction projects.

2. Monthly Water Service Rates. Based upon the revenue requirement, Union District proposed to increase all of its monthly retail water service rates evenly across the board. Union District did not perform a cost of service study (COSS). Union District stated that it did not complete a COSS at this time because there has not been any material change in the water system to warrant a COSS.²¹

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 followed the method proposed by Union District and allocated the \$174,035 revenue increase across the board to Union District's monthly retail water service rates.

Additionally, the Commission staff determined that adjustments to operating expenses and revenues were necessary in determining the revenue requirement. These adjustments are discussed in the detail in the next section. The rates set forth in the

²¹ Union District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Jan. 28, 2022), Item 14.b.

Appendix 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 \$1,788,978 Revenue Required from Water Sales, an approximate 10.78 percent increase. In addition to the monthly usage rates, all retail customers will be assessed the water loss reduction surcharge of \$1.72 per month as discussed in Finding 4. The rates will increase a typical residential customer's monthly water bill from \$27.57 to \$32.16, an increase of \$4.59, or approximately 16.65 percent.²²

The rates will increase the wholesale customer's monthly water bill from \$11,466.68 to \$12,709.53, an increase of \$1,242.85, or approximately 10.83 percent.²³

3. Nonrecurring Charges. Following the Commission's recent decisions,²⁴ Commission Staff has reviewed Union District'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. Union District provided updated cost justification for its nonrecurring charges.²⁵ Commission Staff reviewed the cost justification information provided by Union District and have adjusted these charges by

²² The typical residential customer uses approximately 4,000 gallons per month. The average monthly bill also includes the water loss surcharge of \$1.72 per month.

²³ The typical wholesale customer uses approximately 2,640,026 gallons per month.

²⁴ 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).

²⁵ Union District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Sept. 16, 2022), Item 12.

removing Field Labor Costs and Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Meter Read Charge	\$30.00	\$13.00
Returned Check Fee	\$25.00	\$0.00
Reconnection Charge	\$25.00	\$13.00
Meter Test Charge	\$25.00	\$55.00

The adjustments to the Nonrecurring Charges result in a decrease in Other Operating Revenue of \$46,350 as shown below.

	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Meter Read Charge	2,474	\$30.00	\$13.00	-\$42,058	\$32,162
Returned Check Charge	8	\$25.00	\$0.00	-\$200	\$0
Reconnection Charge	341	\$25.00	\$13.00	-\$4,092	\$4,433
Meter Test Charge	0	\$25.00	\$55.00	\$0	\$0
Total				-\$46,350	
Pro Forma Test Year NRC Revenue					\$36,595
Less: Test Year NRC Revenue					<u>\$82,945</u>
Adjustment					<u><u>-\$46,350</u></u>

4. Water Loss Reduction Surcharge. Commission Staff notes that the use of a surcharge to fund water loss reduction infrastructure improvements is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for

water loss.²⁶ The Commission has ordered surcharges to address excessive unaccounted-for water loss even when a utility has not specifically requested a surcharge.²⁷ Similarly, the Commission has allowed water utilities with reported water loss above the 15 percent threshold to assess water loss reduction surcharges upon the utility's request.²⁸

Union District did not specifically request a Water Loss Reduction Surcharge in its Initial or Amended Applications. However, in reviewing the utility's workpapers, Commission Staff found Union District's calculation for a Water Loss Reduction Surcharge of \$0.73 per month although it was not requested in the application.²⁹

In establishing water-loss surcharges, the Commission recognized that the adjustments required to be made to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water district's water loss reduction project allows the Commission to place strict controls governing the surcharge proceeds to ensure their

²⁶ See Case No. 96-126, *An Investigation into the Operations and Management of South Hopkins Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges*, (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2010); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 11-13.

²⁷ Case No. 2020-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021), Order at 3.

²⁸ See 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).

²⁹ Union District's Response to Staff's Second Request, Item 3.a., Excel Workpaper: 3a_Rate_Study_2021_PUBLIC.xlsx; Tab: Water Loss.

effective use, public acceptance of the surcharge, and public confidence in the water district's use of those funds. In its report entitled, "Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019" that was fully incorporated in the final Order in Case No. 2019-00041, Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement. Based upon Union District's excessive unaccounted-for water loss and because the utility included calculations supporting a surcharge, Commission Staff calculated a monthly Water Loss Reduction Surcharge of \$1.72 per active meter using the water loss adjustment described in Adjustment (H) below.³⁰

Recognizing prior Commission precedent to allow the use of surcharges to assist utilities in obtaining the proper funding needed to combat water loss discussed above, Commission Staff recommends the Commission authorize Union District to assess a monthly water loss reduction surcharge of \$1.72 per active meter for 48 months, with a review of the necessity to continue the surcharge before the 48-month period expires. Commission Staff also recommends that the Commission establish a separate proceeding to monitor the surcharge and place strict controls over the use of the funds that will be collected from the surcharge and require Union District to develop a long-term plan to address its aging infrastructure and combat water loss within six months of the final order in this proceeding.

³⁰ \$45,339 (Cost of Water Loss in Excess of the 15% Limitation) ÷ 26,432 (Number of Test-year Water Bills – Billing Analysis) = \$1.72.

5. Unauthorized Long-Term Debt. On August 31, 2021, Union District entered into a ten-year promissory note with the United Community Bank of West Kentucky (United Bank).³¹ Union District used the proceeds of the Union Bank loan to purchase and to renovate the office building located at 409 North Court Street in Morganfield, Kentucky from the Union County Fiscal Court.³²

KRS 278.020(1) requires a utility to obtain from the Commission a Certificate of Public Convenience and Necessity (CPCN) prior to beginning the construction of any facility, including utility headquarters, for furnishing utility service to the public, with an exception for facilities that are determined by the Commission to be an ordinary extension constructed in the usual course of business. The Commission has previously required a CPCN for the purchase of an existing building and the minimal construction necessary to retrofit the building for use as a water utility headquarters, as well as for the remodeling of existing facilities already in use by a utility.³³ KRS 278.300 requires a utility to obtain prior Commission approval before issuing any form of indebtedness. Union District

³¹ Amended Application, Attachment 18, United Bank Promissory Note.

³² Union District Response to Staff's First Request, Item 1.h.; Union District's Response to Staff's Second Request, Item 4.

³³ See Case No. 2016-00392, *Application of North Mercer Water District for a Certificate of Public Convenience and Necessity to Acquire a Building and Make Minimal Adaptions Thereto* (Ky. PSC Dec. 22, 2016); Case No. 2005-00277, *Application of Fleming-Mason Energy Cooperative Corporation for an Order and Certificate of Public Convenience and Necessity Authorizing Applicant to construct a Garage, Warehouse, fieldhouse, and Remodeling at Flemingsburg, Kentucky* (Ky. PSC Oct. 14, 2005); and Case No. 2016-00181, *Electronic Application of Columbia Gas of Kentucky, Inc. for a Declaratory Order that the Construction of Proposed Gas Safety Training Facilities is in the Ordinary Course of Business and Does Not Require a Certificate of Public Convenience* (Ky. PSC Sept. 9, 2016) (the Commission required a CPCN for the remodeling necessary to retro-fit a portion of an existing building to accommodate a training facility).

admitted that it did not obtain a CPCN for its office building³⁴ nor did it receive prior Commission authorization before it obtained the United Bank loan.³⁵

Union District's Board of Commissioners has the statutory duty and responsibility to ensure that Union District follows the Commission's statutes and regulations, and that all statutory and regulatory approvals are obtained. Union District should be aware that the Commission may initiate a separate proceeding to more thoroughly investigate Union District's possible violations of Commission statutes and regulations, including KRS 278.020(1) and KRS 278.300. If there is a determination made by the Commission that Union District commissioners willfully violated any provision of KRS Chapter 278 and 807 KAR Chapter, Union District's Board of Commissioners may be subject to the assessment of civil penalties under KRS 278.990 or removal from office under KRS 74.025 upon a finding of good cause, including incompetency, neglect of duty, gross immorality, nonfeasance, misfeasance, or malfeasance.

PRO FORMA OPERATING STATEMENT

Union District's Pro Forma Operating Statement for the test year ended December 31, 2021, as determined by Commission Staff, appears below.

³⁴ Union District's Response to Staff's Second Request, Item 5.e.

³⁵ Union District's Response to Staff's First Request, Item 11.c.

	Test Year Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Total Metered Water Sales	\$ 1,488,299	\$ 126,644	A	\$ 1,614,943
Other Water Revenues:				
Forfeited Discounts	19,012			19,012
Miscellaneous Service Revenues	86,389	(46,350)	B	40,039
Total Other Operating Revenues	105,401	(46,350)		59,051
Total Operating Revenues	1,593,700	80,294		1,673,994
Operating Expenses:				
Operation and Maintenance:				
Salaries and Wages - Employees	243,919	11,989	C	
		(6,338)	D	249,570
Salaries and Wages - Officers	14,400			14,400
Employee Pensions and Benefits	194,564	(33,260)	E	
		(30,820)	F	130,484
Purchased Water	902,893	49,657	G	
		(41,722)	H	910,828
Purchased Power	82,590	(3,617)	H	78,973
Materials and Supplies	56,212	(14,790)	D	
		(9,741)	I	31,681
Contractual Services	23,895			23,895
Rent - Building	4,000	(4,000)	J	0
Transportation Expenses	26,029			26,029
Insurance - Gen. Liab. & Workers Comp.	23,721			23,721
Insurance - Other	2,287			2,287
Miscellaneous Expenses	32,050			32,050
Total Operation and Maint. Expenses	1,606,560	(82,642)		1,523,918
Depreciation Expense	300,719	496	I	
		(5,439)	K	295,776
Taxes Other Than Income	21,396	(717)	L	20,679
Total Operating Expenses	1,928,675	(88,302)		1,840,373
Net Utility Operating Income	\$ (334,975)	\$ 168,596		\$ (166,379)

(A) Billing Analysis. Union District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application. In the 2021 Annual Report, total metered retail water sales revenue reported for the test year is \$1,352,079, and total metered sales for resale revenue reported for the test year is \$136,220, for a total of \$1,488,299.³⁶ Union District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates

³⁶ Annual Report at 49, Total Metered Sales \$1,488,299.

authorized in its current tariff to be \$1,465,109.³⁷ Commission Staff discovered a calculation error in Union District's proposed billing analysis of \$16,470 for the 3/4-inch customers. Correcting the \$16,470 billing analysis error, Commission Staff calculated its \$129,500 increase to retail water sales revenue and also decreased test-year sales for resale by \$2,856 to reflect the revenues from water rates generated by the billing analysis for a net billing analysis adjustment to water sales revenue of \$126,644.

(B) Miscellaneous Service Revenues. As discussed above, the adjustments to the nonrecurring Charges result in a decrease in Other Water Revenues of \$46,350.

(C) Employee Salaries and Wages. Union District proposed to increase its test-year Employee Salaries and Wages expense of \$243,919 by \$20,118.³⁸ Since the 2021 test-year, Union District has given its employees wage increase and has replaced two former employees with new employees that are paid lower wages.³⁹

An adjustment to reflect the actual 2022 wage rates, and the current staff level would meet the ratemaking criteria of being known and measurable.⁴⁰ Using Union District's current staff level of six full-time employees, 2,080 regular work hours, the actual

³⁷ Amended Application, Attachment 5, Current Billing Analysis with 2021 Usage & Existing Rates.

³⁸ Amended Application, Attachment 4, unnumbered page 1, Schedule of Adjusted Operations, Adjustment Reference (E).

³⁹ Amended Application, Attachment 4, unnumbered page 3, References, Adjustment Reference E.

⁴⁰ See, 807 KAR 5:001E, Section 16.1.(a).; Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to South Woodford Water District* (Ky. PSC Dec. 19, 2019).

test-year overtime hours worked, and the 2022 employee wage rates, Commission Staff calculates a pro forma Employee Salaries and Wages expense of \$255,908, which is \$11,989, above the reported expense level. Commission Staff recommends the Commission increase Employee Salaries and Wages expense by \$11,989.

(D) Tap-on Fees. In its Amended Application, Union District stated that it collected tap-on fees of \$25,643 during the test year.⁴¹ Union District recorded its tap-on fees in Account 425.01, Meter Set Payments from Customers⁴² and reported the labor and material cost of the meter installations as an operating expense at the time the meters were installed.⁴³ Substituting the tap-on fees for the actual costs it incurred to install the meters, Union District proposed to deduct 30 percent, or \$7,693, of the collected tap-on fees from Salaries and Wages expense and the remaining 70 percent, or \$17,950, from the Materials and Supplies expense.⁴⁴

Union District submitted new cost justification sheets for its 3/4-Inch and 5/8-Inch tap-on charges to reflect the increased meter installation costs.⁴⁵ Union District installed 19 meter tap-ons in 2021, which resulted in test-year tap-on collections of \$20,900, rather than the \$25,643 of tap-on collections that were used in Union District's calculation of its

⁴¹ Amended Application, Attachment 4, unnumbered page 3, References, Adjustment Reference D.

⁴² Union District Response to Staff's First Request, Item 1.a., Excel Workbook: 1.a_2021_General_Ledger.xlsx and Item 6.c.

⁴³ Amended Application, Attachment 4, unnumbered page 3, References, Adjustment Reference D.

⁴⁴ Amended Application, Attachment 4, unnumbered page 3, References, Adjustment Reference D.

⁴⁵ Union District's Response to Staff's First Request for Information, Item 6.e_Tap Fee_Cost_Justification.pdf.

pro forma adjustment.⁴⁶ Applying the increased tap-on charges to the 19 test-year meter installations results in pro forma tap-on collections of \$21,128.⁴⁷ Using the pro forma tap-on collections of \$21,128, Commission Staff reduced Contractual Services – Other expense by 30 percent, or \$6,338, and further reduced Materials and Supplies expense by the remaining 70 percent, or \$14,790.

(E) County Employee Retirement System (CERS). Union District reported a test-year CERS expense of \$102,227.⁴⁸ Union District proposed to decrease its test year Employee Pensions and Benefits expense by \$31,069 to reflect the estimated impact the increase to employee salaries will have on the employers CERS contribution and the elimination GASB reporting requirements.⁴⁹

Union District provides pension benefits and post-retirement health care benefits to its employees by participating in the CERS. As a participating member, Union District is required to contribute a percentage of its employee wages to CERS. The CERS pension expense Union District reported in the test year conformed to the requirements of the General Accounting Standards Board Pronouncement No. 68 (GASB 68). In Case No. 2016-00163,⁵⁰ the Commission discussed in great detail the reporting requirements of GASB 68, and how those requirements would impact a utility's income statement and

⁴⁶ Union District's Response to Staff's First Request, Item 6.a. and Item 6.b.

⁴⁷ \$1,112 (Revised Tap-on Fee) x 19 (Test-Year Meters Installed) = \$21,128.

⁴⁸ Union District's Response to Staff's First Request, Item 2, Excel Workbook: 2_2021_Adjusted_Trial_Balance.xlsx.

⁴⁹ Amended Application, Attachment 4, unnumbered page 3, References, Adjustment Reference F and Adjustment Reference H. \$8,317 (Adjustment Reference F) - \$39,386 (Adjustment Reference H) = \$31,069.

⁵⁰ Case No. 2016-00163, *Alternative Rate Adjustment filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

balance sheet. In that proceeding, the Commission found the annual pension expense should be equal to the amount of a district's contributions to CERS, which historically have been "fairly constant."

In the fiscal year, beginning July 1, 2022, the CERS employer contribution rate decreased to 26.79 percent.⁵¹ Based on the above, Commission Staff determined that Union District's pro forma CERS employer contributions are \$68,967,⁵² resulting in a decrease to Employee Pensions and Benefits expense of \$33,260.⁵³

(F) Employee Benefits. Union District proposed to decrease its test year Employee Pensions and Benefits expense by \$8,180.⁵⁴ Union District currently pays 100 percent of the monthly premiums for health, vision, dental, and life insurance for its eligible full-time employees.⁵⁵ Union District explained that the Commission currently places the following employer contribution limitations on employee insurance benefits: a 79 percent limit single employee health insurance coverage, a 66 percent on family coverage, and a 60 percent limitation dental coverage.⁵⁶ Applying those percentages to

⁵¹ <https://kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>. Employer CERS Contribution Rate for the Fiscal Year 2023 beginning July 1, 2022 is 26.79%.

⁵² \$255,908 (Pro Forma Employee Salaries and Wages expense) x 26.95% (CERS Fiscal Year 2023 Employer Contribution Rate) = \$68,967 (Pro Forma Employer CERS Contribution).

⁵³ \$68,967 (Pro Forma Employer CERS Contribution) - \$102,227 (Test-Year CERS Expense) = \$33,260.

⁵⁴ Amended Application, Attachment 4, unnumbered page 1, Schedule of Adjusted Operations, Adjustment Reference (G).

⁵⁵ Amended Application, Attachment 4, unnumbered page 3, References, Adjustment Reference G.

⁵⁶ Amended Application, Attachment 4, unnumbered page 3, References, Adjustment Reference G.

the current employee insurance premiums is the basis of Union District's proposed adjustment.⁵⁷

Commission Staff notes that the Commission has consistently made ratemaking adjustments to reduce the cost of employee benefit packages 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. The Commission continues to place greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. It has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.

Consistent with past precedent, in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee's health insurance coverage; Commission Staff reduced Union District's single health insurance premiums by 34 percent for family/parent plus/couple insurance,⁵⁸ and by 60 percent dental insurance, the national average employee contribution rate.⁵⁹ Factoring in the preceding, Commission Staff decreased employee pensions and benefits by \$30,820,⁶⁰ as calculated in the table below.

⁵⁷ Amended Application, Attachment 4, unnumbered page 3, References, Adjustment Reference G.

⁵⁸ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁵⁹ The Willis Benchmarking Survey, 2015, at 62–63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

⁶⁰ Union District's Response to Staff's First Request, Item 2, Excel Workbook: 2_2021_Adjusted_Trial_Balance.xlsx. Account No. 604.02, Insurance Hospitalization - \$92,337.

	Monthly Premium	District Contrib %	Annual Premium	Allowable Employer Share	Allowable Employer Premium
Medical	\$ 7,374	100%	\$ 88,488	66%	\$ 58,402
Vision	118	100%	1,416	100%	1,416
Dental	236	100%	2,832	60%	1,699
Administrative		100%	0	100%	0
TOTAL	<u>\$ 7,728</u>		<u>\$ 92,736</u>		<u>\$ 61,517</u>
Allowable Employer Premium					\$ 61,517
Less Annual Premium					(92,337)
Medical Adjustment					<u>\$ (30,820)</u>

(G) Purchased Water. Union District reported a test-year Purchased Water expense of \$902,893.⁶¹ In reviewing Case No. 2022-00021,⁶² Commission Staff discovered that on January 1, 2022, Union District's wholesale water supplier, the city of Morganfield (Morganfield), increased its wholesale water rate from \$0.0025542 per Gallon to \$0.0026924 per Gallon. In calendar year 2021, Union District purchased 353,792,000 Gallons of water from Morganfield.⁶³

Applying Morganfield's January 1, 2022 wholesale water rate of \$0.0026924 to the 353,792,000 gallons of water purchased in the test year, Commission Staff calculated a pro forma Purchased Water expense of \$952,550.⁶⁴ Accordingly, Commission Staff recommends the Commission increase Union District's Purchased Water expense by \$49,657.⁶⁵

⁶¹ Amended Application, Attachment 4, unnumbered page 1, Schedule of Adjusted Operations.

⁶² See Case No. 2022-00021, *Electronic Purchased Water Adjustment Filing of Union County Water District* (Ky. PSC Feb. 24, 2022).

⁶³ 2021 Annual Report at 57.

⁶⁴ 353,792,000 (Test Year Gallons Purchased from Morganfield) x \$0.0026924 (Morganfield's Current Wholesale Rate) = \$952,550.

⁶⁵ \$952,550 (Pro Forma Purchased Water expense) - \$902,893 (Reported Purchased Water expense) = \$49,657.

(H) Excess Water Loss. Commission regulation 807 KAR 5:066, Section 6(3)⁶⁶ limits water loss to 15 percent for ratemaking purposes unless the Commission finds an alternative level reasonable. Union District reported a test year water loss of 19.38 percent, or 4.38 percent above the 15 percent allowable limit.⁶⁷ To eliminate the cost to purchase, produce, and pump water over the 15 percent allowable limit, Union District proposed to decrease Purchased Water expense and Purchased Power expense by \$39,552, and \$3,618 respectively.⁶⁸

Commission Staff agrees that Union District's proposal to eliminate the costs associated with excessive water loss conforms to the Commission's current practice. However, Commission Staff's calculations result in decreases to Purchased Water expense and Purchased Power expense of \$41,722 and \$3,617, respectively. Commission Staff's calculations are in the Water Loss Table at 3.

(I) Materials and Supplies – Capital Expenditures. Union District reported test year materials and supplies expense of \$56,212.⁶⁹ In its review of the 2021 general

⁶⁶ "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 ratemaking 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."

⁶⁷ 2021 Annual Report at 57.

⁶⁸ Amended Application, Attachment 4, unnumbered page 1, Schedule of Adjusted Operations and Union District's response to Staff's Second Request, Item 3.a., Excel Workpaper: 3a_Rate_Study_2021_PUBLIC.xlsx; Tab: SAO. Union District mistakenly added its water loss adjustments to Purchased Water and Purchased Power expenses. However, in its Excel Workbook Union District corrected their mistakes.

⁶⁹ Amended Application, Attachment 4, Schedule of Adjusted Operations.

ledger⁷⁰ and the test year invoices, Commission Staff discovered that Union District had expensed the cost of office furniture of \$1,955, a new computer of \$1,914, computer software of \$954, and backflow preventers of \$4,918. The identified expenditures are considered capital costs that should not be recorded as an expense in the year incurred, but rather depreciated over their estimated useful lives. Commission Staff reduced test year materials and supplies expense by \$9,741 to remove the capital expenditures.⁷¹

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 National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study). According to the NARUC Study, the depreciation lives for the office furniture, computer/software, and backflow preventers are 22.5 years, 10 years, and 40 years, respectively. Commission Staff increased depreciation expense by \$496 as calculated in the table below.

Description	Capital Expenditure	NARUC Study			Depreciation Expense
		Avg. Service Life Range		Mid-Point Service Life	
Office Furniture	\$ 1,955	20.0	25.0	22.5	\$ 87
Computer Upgrade	1,914	10.0	10.0	10.0	191
QuickBooks	954	10.0	10.0	10.0	95
Backflow Preventors	4,918	30.0	50.0	40.0	123
Pro Forma Adjustment	<u>\$ 9,741</u>				<u>\$ 496</u>

⁷⁰ Union District's Response to Staff's First Request, Item 5, 2020 General Ledger.

⁷¹ \$1,955 (Office Furniture) + \$1,914 (Computer) + \$954 (Computer Software) + \$4,918 (Backflow Preventers) = \$9,741.

(J) Office Rent. Union District reported test year Office Rent expense of \$4,000.⁷² The reported office rent was paid by Union District to the Union County Fiscal Court for the building that was purchased on August 20, 2021.⁷³ Given that the office rent will not be incurred by Union District as an ongoing expense the Commission Staff recommends the Commission accept its adjustment to reduce operating expenses by \$4,000 to eliminate this expense.

(K) Depreciation. Union District proposed to decrease its test-year Depreciation expense of \$300,719 by \$5,439 for a pro forma Depreciation expense of \$295,28.⁷⁴ Union District explained that the Commission typically requires a water utility to adjust its depreciation expense when its depreciation lives fall outside of the ranges recommended in the NARUC Study.⁷⁵ According to Union District, its adjustment brings the depreciable lives of its assets to or near the midpoint of NARUC's recommended ranges.⁷⁶

To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC Study. When no evidence exists to support a specific life that is inside or outside the NARUC Study ranges,

⁷² Amended Application, Attachment 4, unnumbered page 1, Schedule of Adjusted Operations.

⁷³ Union District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed October 3, 2022), Item 1.a.

⁷⁴ Amended Application, Attachment 4, unnumbered page 1, Schedule of Adjusted Operations, Adjustment Reference J.

⁷⁵ Amended Application, Attachment 4, unnumbered page 3-4, References, Adjustment Reference J.

⁷⁶ Amended Application, Attachment 4, unnumbered page 3-4, References, Adjustment Reference J.

the Commission has historically used the midpoint of the NARUC Study ranges to depreciate a utility plant.

Upon its review of Union District's depreciation schedule, Commission Staff determined that Union District's adjusted depreciation lives are at the midpoint of the NARUC Study range for each asset category. Commission Staff finds Union District's depreciation adjustment to be reasonable and has decreased Depreciation expense by \$5,439.

(L) Payroll Taxes. Union District proposed to decrease its test year Payroll Tax expense of \$21,396 by \$1,197 to a pro forma level of \$20,199 to reflect its Pro Forma Salaries and Wages changes.⁷⁷ Union District explains that its net increase in wages also results in lower payroll taxes.⁷⁸

In reviewing the General Ledger for calendar year 2021, Commission Staff noted that Union District capitalized employee salaries of \$24,000. However, according to the Uniform System of Accounts for Class A and B Water District's and Association's (USoA Class A and B Water District's and Association's)⁷⁹ the direct and overhead costs of construction should be recorded in the utility plant accounts and depreciated. The payroll taxes associated with the capitalized employee salaries is classified as an overheard cost of construction that would be capitalized rather than recorded as an operating expense.

⁷⁷ Amended Application, Attachment 4, unnumbered page 1, Schedule of Adjusted Operations, Adjustment Reference K and unnumbered page 4, References, Adjustment Reference K.

⁷⁸ Amended Application, Attachment 4, unnumbered page 4, References, Adjustment Reference K.

⁷⁹ (USoA Class A and B Water District's and Association's) at 20, Accounting Instruction 19.

Union District failed to capitalize payroll tax associated with the capitalized wages, which resulted in an overstatement of the reported FICA expense.

Using the pro forma Employee Salaries and Wages expense of \$255,908, the Commissioner Salaries and Wages expense of \$14,400 and the current FICA Tax Rate of 7.65 percent, Commission Staff calculated a pro forma FICA expense of \$20,679,⁸⁰ for a decrease to Union District’s Payroll Tax expense by \$717.⁸¹ Commission Staff’s adjustment corrects Union District’s overstatement of its FICA expense.

OVERALL REVENUE REQUIREMENT AND
REQUIRED REVENUE INCREASE

Historically, the Commission has applied a DSC method to calculate the revenue requirement of water districts and water associations.⁸² This method allows for recovery of (1) cash-related pro forma operating expenses; (2) depreciation expense, a non-cash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts, and (4) working capital that is in addition to depreciation expense.

As calculated in the table below, using the DSC requires an Overall Revenue Requirement of \$1,849,973, a revenue requirement from water sales of \$1,788,978, and a revenue increase of \$174,035 or 10.78 percent.

Pro Forma Operating Expenses	\$ 1,840,373
Plus: Average Annual Debt Service	9,600
Overall Revenue Requirement	1,849,973
Less: Other Operating Revenue	(59,051)
Nonutility Income	(1,944)

⁸⁰ \$255,908 (Pro Forma Employee Salaries and Wages Expense) + \$14,400 (Commissioner Salaries and Wages expense) = \$270,308 x 7.65% (Employer FICA Rate) = \$20,679.

⁸¹ \$20,679 (Pro Forma FICA) - \$21,396 (Reported FICA) = (\$717).

⁸² See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020); see also Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

Revenue Required from Water Sales	1,788,978
Less: Normalized Revenues from Water Sales	<u>(1,614,943)</u>
Required Revenue Increase	<u>\$ 174,035</u>
Percentage Increase	<u>10.78%</u>

Signatures

/S/ Mark Frost

Prepared by: Mark Frost
Revenue Requirement Branch
Division of Financial Analysis

/s/ Jason Green

Prepared by: Jason Green
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00160 DATED JAN 20 2023

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

Monthly Water Rates

5/8-Inch Meter

First	2,000 Gallons	\$15.18	Minimum Bill
Next	3,000 Gallons	0.00763	Per Gallon
Next	5,000 Gallons	0.00719	Per Gallon
Next	15,000 Gallons	0.00680	Per Gallon
Next	25,000 Gallons	0.00647	Per Gallon
Next	50,000 Gallons	0.00603	Per Gallon
Next	100,000 Gallons	0.00558	Per Gallon
Next	100,000 Gallons	0.00514	Per Gallon
Over	300,000 Gallons	0.00470	Per Gallon

3/4-Inch Meter

First	5,000 Gallons	\$38.06	Minimum Bill
Next	5,000 Gallons	0.00719	Per Gallon
Next	15,000 Gallons	0.00680	Per Gallon
Next	25,000 Gallons	0.00647	Per Gallon
Next	50,000 Gallons	0.00603	Per Gallon
Next	100,000 Gallons	0.00558	Per Gallon
Next	100,000 Gallons	0.00514	Per Gallon
Over	300,000 Gallons	0.00470	Per Gallon

1-Inch Meter

First	10,000 Gallons	\$74.01	Minimum Bill
Next	15,000 Gallons	0.00680	Per Gallon
Next	25,000 Gallons	0.00647	Per Gallon
Next	50,000 Gallons	0.00603	Per Gallon
Next	100,000 Gallons	0.00558	Per Gallon

Next	100,000 Gallons	0.00514	Per Gallon
Over	300,000 Gallons	0.00470	Per Gallon

1 1/2-Inch Meter

First	25,000 Gallons	\$176.04	Minimum Bill
Next	25,000 Gallons	0.00680	Per Gallon
Next	50,000 Gallons	0.00647	Per Gallon
Next	100,000 Gallons	0.00603	Per Gallon
Next	100,000 Gallons	0.00514	Per Gallon
Over	300,000 Gallons	0.00470	Per Gallon

2-Inch Meter

First	50,000 Gallons	\$337.78	Minimum Bill
Next	50,000 Gallons	0.00647	Per Gallon
Next	100,000 Gallons	0.00603	Per Gallon
Next	100,000 Gallons	0.00514	Per Gallon
Over	300,000 Gallons	0.00470	Per Gallon

2 1/2-Inch Meter

First	75,000 Gallons	\$488.43	Minimum Bill
Next	25,000 Gallons	0.00647	Per Gallon
Next	100,000 Gallons	0.00603	Per Gallon
Next	100,000 Gallons	0.00514	Per Gallon
Over	300,000 Gallons	0.00470	Per Gallon

3-Inch Meter

First	100,000 Gallons	\$639.09	Minimum Bill
Next	100,000 Gallons	0.00603	Per Gallon
Next	100,000 Gallons	0.00514	Per Gallon
Over	300,000 Gallons	0.00470	Per Gallon

4-Inch Meter

First	200,000 Gallons	\$1,197.41	Minimum Bill
Next	100,000 Gallons	0.00514	Per Gallon
Over	300,000 Gallons	0.00470	Per Gallon

6-Inch Meter

First	300,000 Gallons	\$1,711.42	Minimum Bill
Over	300,000 Gallons	0.00470	Per Gallon

Water Loss Surcharge

\$1.72 Per Month

Nonrecurring Charges

Meter Read Charge	\$13.00
Returned Check Charge	\$ 0.00
Reconnection Charge	\$13.00
Meter Test Charge	\$55.00

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00160 DATED JAN 20 2023

Operating Ratio and Working Capital Comparison

	<u>88%</u>	<u>89%</u>	<u>90%</u>	<u>91%</u>	<u>92%</u>
Pro Forma Operating Expenses	\$ 1,840,373	\$ 1,840,373	\$ 1,840,373	\$ 1,840,373	\$ 1,840,373
Divide by: Operating Ratio	88%	89%	90%	91%	92%
Subtotal	2,091,333	2,067,835	2,044,859	2,022,388	2,000,406
Add: Average Annual Interest Expense	1,594	1,594	1,594	1,594	1,594
Total Revenue Requirement	2,092,927	2,069,429	2,046,453	2,023,982	2,002,000
Less: Other Operating Revenue	(59,051)	(59,051)	(59,051)	(59,051)	(59,051)
Nonutility Income	(1,944)	(1,944)	(1,944)	(1,944)	(1,944)
Revenue Required from Rates	2,031,932	2,008,434	1,985,458	1,962,987	1,941,005
Less: Normalized Revenues from Water Sales	(1,614,943)	(1,614,943)	(1,614,943)	(1,614,943)	(1,614,943)
Required Revenue Increase/(Decrease)	<u>\$ 416,989</u>	<u>\$ 393,491</u>	<u>\$ 370,515</u>	<u>\$ 348,044</u>	<u>\$ 326,062</u>
Percentage Increase	<u>25.82%</u>	<u>24.37%</u>	<u>22.94%</u>	<u>21.55%</u>	<u>20.19%</u>
Total Revenue Requirement	\$ 2,092,927	\$ 2,069,429	\$ 2,046,453	\$ 2,023,982	\$ 2,002,000
Less: Pro Forma Operating Expenses	(1,840,373)	(1,840,373)	(1,840,373)	(1,840,373)	(1,840,373)
Less: Line Loss Adj	(45,339)	(45,339)	(45,339)	(45,339)	(45,339)
Less: Annual Debt Service	(9,600)	(9,600)	(9,600)	(9,600)	(9,600)
Add: Non Cash Items (Depreciation)	295,776	295,776	295,776	295,776	295,776
Total Working Capital	<u>\$ 493,391</u>	<u>\$ 469,893</u>	<u>\$ 446,917</u>	<u>\$ 424,446</u>	<u>\$ 402,464</u>

*Robert K. Miller
Straightline Kentucky LLC
113 North Birchwood Ave.
Louisville, KENTUCKY 40206

*Wm. Clint Prow
Attorney
112 North Broadway
Providence, KENTUCKY 42450

*Gary Sheffer
Manager
Union County Water District
409 North Court Street
P. O. Box 146
Morganfield, KY 42437

*Union County Water District
409 North Court Street
P. O. Box 146
Morganfield, KY 42437