

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WESTERN)	
MASON COUNTY WATER DISTRICT FOR A)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR)	2023-00182
5:076)	

ORDER

On July 10, 2023,¹ Western Mason County Water District (Western Mason District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,² Western Mason District used the calendar year ended December 31, 2022, as the basis for its application. Western Mason District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2014-00421.³

In its application, Western Mason District requested rates that would increase its annual water sales revenues by \$211,093, or a 27.06 percent increase to pro forma present rate water sale revenues.⁴

¹ Western Mason District tendered its application on May 30, 2023. By letters dated June 6, 2023, June 19, 2023, and June 20, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on July 10, 2023.

² 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.

³ Case No. 2014-00421, *Alternative Rate Adjustment Filing of Western Mason County Water District*, (Ky. PSC May 15, 2015).

⁴ Application, Attachment 4.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated August 8, 2023. Western Mason District responded to two discovery requests from Commission Staff.⁵

On November 14, 2023, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Western Mason District's requested rate adjustment. In the Commission Staff's Report, Commission Staff recommended that Western Mason District's adjusted test-year operations support a total revenue requirement of \$1,034,666, and that an annual revenue increase of \$187,803, or 23.38 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement. In the absence of a cost-of-service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

On November 21, 2023, Western Mason District filed its response to Commission Staff's Report. In its written comments, Western Mason District expressed disagreement with removal of certain labor expenses from nonrecurring charges but waived its right to contest that adjustment. Western Mason District expressly stated that its current waiver should not be construed as a waiver of its right to contest similar findings or recommendations regarding nonrecurring charges in any future rate proceedings. Western Mason District concurred with the remaining findings presented in Commission

⁵ Western Mason District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Sep. 1, 2023). Western Mason District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Oct. 9, 2023).

Staff's Report, waived its right to request an informal hearing.⁶ The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."⁷ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Western Mason District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 1,039 residential customers, 22 commercial customers, who reside in Bracken and Mason counties, Kentucky, as well as and 2 bulk loading stations.⁸

⁶ Western Mason Water District Response to Staff Report (filed Nov. 21, 2023).

⁷ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

⁸ *Annual Report of Western Mason District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in Western Mason District’s 2022 Annual Report, Western Mason District reported a water loss of 11.4872 percent.⁹ Commission regulation 807 KAR 5:066, Section 6(3), states that for 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. Western Mason District produces its own water,¹⁰ and its Chemicals expense is a part of Materials and Supplies.¹¹ The table below shows that the 2022 total annual cost of water loss to Western Mason District is \$6,420.

	<u>Purchased Power</u>	<u>Chemicals & Lab Testing</u>	<u>Total</u>
Pro Forma Expenses	\$ 51,868	\$ 4,024	\$ 55,892
Multiply by: Total Water loss	<u>11.4872%</u>	<u>11.4872%</u>	<u>11.4872%</u>
Total Cost	<u>\$ 5,958</u>	<u>\$ 462</u>	<u>\$ 6,420</u>

TEST PERIOD

The calendar year ended December 31, 2022, was used as the test year to determine the reasonableness of Western Mason District’s existing and proposed water rates as required by 807 KAR 5:076, Section 9.

⁹ 2022 Annual Report, at 57.

¹⁰ 2022 Annual Report at 57.

¹¹ Western Mason District’s Response to Staff’s Second Request, Item 3.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Western Mason District's pro forma income statement as follows.

	<u>2022 Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Commission Staff Report Pro Forma</u>
Total Operating Revenues	\$ 797,373	\$ 37,367	\$834,740
Utility Operating Expenses	<u>801,177</u>	<u>(55,865)</u>	<u>745,312</u>
Net Utility Operating Income	(3,804)	93,232	89,428
Gains (Losses) from Disposal of Utility Property	5,048	(5,048)	0
Interest and Dividend Income	93	0	93
Nonutility Income	<u>11,940</u>	<u>0</u>	<u>11,940</u>
Total Utility Operating Income	<u>\$ 13,277</u>	<u>\$88,184</u>	<u>\$ 101,461</u>

REVIEW AND MODIFICATION OF
COMMISSION STAFF'S RECOMMENDATIONS

Western Mason District proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. Upon review, the Commission discovered Commission Staff recorded an adjustment for Other Water Revenues incorrectly. The adjustment for Other Water Revenues was reported \$15,054; however when the Commission Staff calculated the Revenue Requirement it recorded the adjustment as \$15,319. Correction for the difference in contribution rates results in a decrease to the Revenue Requirement of \$90. The Commission finds that this correction to Other Water Revenues rates is appropriate in order to properly record the amount of Forfeited Discounts Western Mason District collected during the test year. The following is the Commission's complete pro forma:

	2022 Test Year	Total Proposed Adjustment	Pro Forma	Commission Proposed Adjustment	Commission Approved Pro Forma
Operating Revenues					
Total Metered Water Sales	\$ 776,080	\$ 18,188			
		10,181			
		(1,250)	\$ 803,199		\$ 803,199
Other Water Revenues					
Forfeited Discounts		15,054	15,054		15,054
Misc. Service Revenues		1,078	1,078		1,078
Other Water Revenues	21,293	9,435			
		(15,319)	15,409	90	15,499
Total Other Water Revenues	21,293	10,248	31,541	90	31,631
Total Operating Revenues	797,373	37,367	834,740	90	834,830
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	253,468	21,600			
		(20,158)			
		(1,800)	253,110		253,110
Salaries and Wages - Officers	14,400		14,400		14,400
Employee Pensions and Benefits	75,356	(23,480)	51,876		51,876
Purchased Power	51,868		51,868		51,868
Materials and Supplies	70,879	(4,200)	66,679		66,679
Contractual Services - Accounting	21,100		21,100		21,100
Contractual Services - Other	38,608		38,608		38,608
Transportation Expenses	6,689		6,689		6,689
Insurance - Other	14,797		14,797		14,797
Miscellaneous Expense	4,004	11,622	15,626		15,626
Total Operation and Maintenance Expenses	551,169	(16,416)	534,753	-	534,753
Depreciation	230,246	(40,661)	189,585		189,585
Taxes Other Than Income	19,762	584			
		628	20,974		20,974
Utility Operating Expenses	801,177	(55,865)	745,312	-	745,312
Net Operating Income	(3,804)	93,232	89,428	90	89,518
Gains (Losses) from Disposal of Utility Property	5,048	(5,048)	-		-
Interest and Dividend Income	93		93		93
Nonutility Income	11,940		11,940		11,940
Income Available to Service Debt	\$ 13,277	\$ 88,184	\$ 101,461	\$ 90	\$ 101,551

Adjusted Trial Balance Reconciliation. Western Mason District based its application on its 2022 test year. However, when Commission Staff reviewed and reconciled the application with the 2022 Adjusted Trial Balance provided,¹² it determined

¹² Western Mason District's Response to Staff's First Request, Item 1b, 1b_Adjusted_Trial_Balance_2022.pdf.

the year-end audit adjusting entries 1 through 7¹³ were not included in Western Mason District's test year amounts. Therefore, Commission Staff proposed several adjustments in order to reconcile the application with the Adjusted Trial Balance.

When Commission Staff reviewed Total Metered Sales, it discovered that Audit Adjustments 5 and 7 were not included. Therefore, Commission Staff made an adjustment to increase Total Metered Sales by \$18,188.¹⁴ When Commission Staff reviewed Other Water Revenues, it discovered that Audit Adjustment 4 was not included. Therefore, Commission Staff made an adjustment to increase Other Water Revenues by \$9,435. When Commission Staff reviewed Salaries and Wages – Employees, it discovered that Audit Adjustments 2 and 3 were not included. Therefore, Commission Staff made an adjustment to increase Salaries and Wages – Employees by \$21,600.¹⁵ When Commission Staff reviewed Miscellaneous Expenses, it discovered that Audit Adjustments 1 and 6 were not included. Therefore, Commission Staff made an adjustment to increase Salaries and Wages – Employees by \$11,622.¹⁶ When Commission Staff reviewed Taxes Other Than Income, it discovered that Audit Adjustment 3 was not included. Therefore, Commission Staff made an adjustment to increase Salaries and Wages – Employees by \$584. Commission Staff made these adjustments in order to reconcile the difference between the application and the Adjusted Trial Balance.

¹³ Cover letter and 2022 Auditors Adjustments, (filed Sept. 1, 2023), 1b_Audit_Adjustments_2022.pdf.

¹⁴ Audit Adjusting Entry 5 of \$7,610 + Audit Adjusting Entry 7 of 10,578 = \$18,188.

¹⁵ Audit Adjusting Entry 2 of \$13,960 + Audit Adjusting Entry 3 of 7,640 = \$21,600.

¹⁶ Audit Adjusting Entry 1 of \$97 + Audit Adjusting Entry 6 of \$11,525 = \$11,622.

The Commission finds that the Commission Staff's recommended adjustments are reasonable based on the need to reconcile the difference between the application and the Adjusted Trial Balance for each specified adjusted category.

Billing Analysis Adjustment. Western Mason District proposed an adjustment of \$4,078 to its test-year revenues of \$776,080 for an adjusted test-year normalized revenues of \$780,158.¹⁷ In Commission Staff's Report, Commission Staff updated the amount of the billing adjustments to \$21,928 to the billing analysis. With the adjustment to the billing analysis, this required an additional increase to the test year revenues of a total adjustment of \$6,103 for an adjustment to test year revenues of a total of \$10,181.¹⁸

Finally, the Commission Staff's Report discussed the Audit Adjustments, of which there were two adjustments to be made to test year revenues of an increase of \$18,188 and a reduction of \$1,250, for a pro forma amount of \$803,199.¹⁹ Commission Staff recommended that the Commission approve these adjustments based on the evidence filed into the record having been analyzed and evaluated by Commission Staff.

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted because they are consistent with proper ratemaking accounting and is supported by the evidence in the record.

Forfeited Discounts. In the Commission's Staff Report, Commission Staff discussed that the Forfeited discounts were misclassified as Other Water Revenues. This results in a reduction in Other Water Revenues of \$15,054 and an increase to Forfeited

¹⁷ Application, Attachment 5.

¹⁸ Commission Staff's Report at 10.

¹⁹ Commission Staff's Report at 10.

Discounts of \$15,054. Commission Staff recommended that the Commission approve these adjustments based on the evidence filed into the record having been analyzed and evaluated by Commission Staff.

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted because they are consistent with proper ratemaking accounting and is supported by the evidence on the record.

Miscellaneous Service Revenues. In the Commission Staff's Report, Commission Staff discussed the misreported Reconnect Fees of \$1,150 and Returned Check Fees of \$100 being reported as General Water Service Revenues. Commission Staff also discussed the Turn-On Charge was misreported as Other Operating Revenue. Commission Staff removed the Reconnect Fees and Returned Check Fees from the General Water Sales Revenue and the Turn-On Fees of \$175 from Other Water Revenues and reclassified these revenues as Miscellaneous Service Revenues for a test year total Miscellaneous Service Revenues of \$1,425. Additionally, Western Mason District requested to discontinue its Meter Reread Fee.

Commission Staff reviewed the responses to the information requests, the cost justification sheets, and the general ledger filed into the record. Commission Staff decreased Miscellaneous Service Revenues by \$347 by removing field labor to nonrecurring charges that are accomplished during normal office hours. The proposed adjustments made by Commission Staff result in a pro forma amount of \$1,078. Commission Staff recommended that the Commission approve these adjustments based on the evidence filed into the record that was analyzed and evaluated by Commission Staff, and approve the request to eliminate the Meter Reread Fee.

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted because they are consistent with proper ratemaking accounting and approve the request to eliminate the Meter Reread Fee.

Other Water Revenues. In its application, Western Mason District did not propose any adjustment to Other Water Revenues, which totaled \$21,293. In the Commission Staff's Report, Commission Staff discussed that the Forfeited Discounts were misclassified as Other Water Revenues in its application.²⁰ Commission Staff reclassified \$15,054 from Other Water Revenues to Forfeited Discounts. This results in a reduction in Other Water Revenues of \$15,054 and an increase in Forfeited Discounts of \$15,054. In the Commission Staff's Report, Commission Staff discussed the Turn-On Fees of \$175 were reported as Other Water Revenues and should be reclassified to Miscellaneous Service Revenues.²¹ Commission Staff has reduced test year Other Water Revenues by \$15,054 for the Forfeited Discounts and by \$175 for the Turn-On Fees. As discussed in the Audit Notes an adjusting entry of \$9,435 in Other Operating Revenues.²²

The Commission discovered an error in the Commission Staff Report's Pro forma Statement, the adjustment to remove Forfeited Discounts was stated to have been a decrease of \$15,054 to Other Water Revenues, but was recorded as \$15,409 instead. Revising the adjustment, and adjusting entry results in a pro forma of amount of \$15,499. The Commission's adjustment results in a decrease to the Revenue Requirement of \$90.

²⁰ Commission Staff's Report at 10.

²¹ Commission Staff's Report at 11.

²² Commission Staff's Report at 11.

The Commission finds that Commission Staff's recommended adjustments should be modified, since Commission Staff's adjustment was incorrectly recorded and the revision is required to correctly account for the removal of Forfeited Discounts are reasonable and should be accepted because they are consistent with proper ratemaking accounting and is supported by the evidence on the record. Other Water Revenues should be increased by \$90 more than Commission Staff recommend, as shown above.

Salaries and Wages – Employees. In its application, Western Mason District proposed an adjustment to increase test year Salaries and Wages - Employees by \$1,442 to account for increases in Wage rates subsequent to the test year.²³ Western Mason District provided its test-year and current employee list, hours worked, and employee wage rates.²⁴

Commission Staff reviewed the wage rates for the test year and current year and did not identify any changes. Commission Staff agrees with Western Mason District's methodology but calculated a different amount. Commission Staff calculated the Salaries and Wages – Employees, utilizing the test-year hours worked, and the current wage rates, and determined a Salaries and Wages total of \$254,910. The Pro Forma Salaries and Wages – Employees displayed in the Statement of Adjusted Operations includes an additional adjustment to reflect the removal of water tap labor. As discussed in the audit reconciliation adjustment, additional adjustments were made due to the need for the application to reconcile with the adjusted trial balance. With this, the adjusted test year Salaries and Wages – Employees is \$275,068. Therefore, Commission Staff made an

²³ Application, Attachment 4, References, Adjustment B.

²⁴ Western Mason District's Response to Staff's First Request, Item 1d.

adjustment to decrease Salaries and Wages – Employees by \$20,158, which is \$21,600 less than proposed by Western Mason District, as shown below. Additionally, Commission Staff recommends Western Mason District hire an additional employee in the future, as this would lessen the overtime burden on positions one and two.

Test Year hours with Current Wages								
Total Hours	Test Year Normal Hours	Current Wages Rates	Pro Forma Normal Wages	Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages	
3,696	2,416	\$ 30.00	\$ 72,480.00	1,280	\$ 45.00	\$ 57,600	\$ 130,080	
3,299	2,418	25.00	60,450.00	881	37.50	33,038	93,488	
2,086	2,079	15.00	31,185.00	7	22.50	157.50	31,343	
Total Salaries & Wages - Employees			<u>\$ 164,115</u>	Total Salaries & Wages - Employees			<u>\$ 90,795</u>	254,910
Less: Adjusted Salaries and Wages - Employees				Less: Adjusted Salaries and Wages - Employees				(275,068)
Total Salaries & Wages Adjustment				Total Salaries & Wages Adjustment				(20,158)
Less: Western Mason District's Proposed Adjustment				Less: Western Mason District's Proposed Adjustment				(1,442)
Commission Staff's Proposed Salaries & Wages Adjustment				Commission Staff's Proposed Salaries & Wages Adjustment				<u>\$ (21,600)</u>

The Commission finds that Commission Staff's recommended adjustments are reasonable and Western Mason District's Salaries and Wages – Employees should be decreased by \$20,158, because Western Mason District provided evidence that its employee salaries changed during the test year, and the calculations are based upon test year hours worked and the current wage rates, and therefore should be accepted.

Expenses Related to Meter Installations. In its application, Western Mason District proposed an adjustment to decrease test year Materials and Supplies by \$4,200²⁵ and Salaries and Wages – Employees by \$1,800²⁶ to account for tapping fees that were included as part of these expenses. During 2022, Western Mason District installed eight

²⁵ Application, Attachment 4, References, Adjustment D.

²⁶ Application, Attachment 4, References, Adjustment D.

new water connections.²⁷ Commission Staff agrees with Western Mason District's proposed adjustment based on the fact that 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.²⁸

The Commission finds that Commission Staff's adjustment is reasonable and Western Mason District's Salaries and Wages – Employees should be reduced by \$1,800, and Materials and Supplies should be reduced by \$4,200 because the USoA requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives and should be accepted.

Employee Pensions and Benefits - Insurance. In its application, Western Mason District proposed an adjustment to decrease Employee Pension and Benefits by \$26,899 to reflect Commission policy of limiting expenses for ratemaking purposes associated with providing employees medical insurance to match the Bureau of Labor Statistics.²⁹ Western Mason District currently pays 100 percent for full time Employee's health insurance plan.³⁰ Commission Staff agrees with Western Mason District's methodology but calculated a different amount. Commission Staff reduced Western Mason District's single health insurance premiums by 21 percent,³¹ and family insurance premiums by

²⁷ Western Mason District's Response to Staff's First Request, Item 9a.

²⁸ USoA, Accounting Instruction 19 and 33.

²⁹ Application, Attachment 4, Adjustment E.

³⁰ Application, Attachment 4, Adjustment E.

³¹ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

33 percent,³² and dental insurance by 60 percent³³ as shown in the calculation below. This adjustment was recommended because the Commission has continued 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. The Commission has found that, in most cases, 100 percent of employer-funded medical insurance premiums does not meet those criteria.³⁴ Western Mason District provided the most recent copy of its health and dental insurance invoices.³⁵ Accordingly, utilizing the most recent invoice amounts, Commission Staff recalculated the proposed adjustment and decreased Employee Pension and Benefits by \$23,480, which is \$3,419 less than proposed by Western Mason District, as shown below.

³² Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

³³ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Mar. 24, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Mar. 5, 2021); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

³⁴ Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

³⁵ Western Mason District's Response to Staff's First Request, Item 1f, 1f_Benefits_Invoices.pdf.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	1	\$ 992	21%	\$ (208)	\$ 784
Family Health Insurance	2	5,035	33%	(1,662)	3,373
Dental Insurance	3	250	60%	(150)	100
Life Insurance	3	67	0%	-	67
Total Pro Forma Monthly Premium		6,343		(2,020)	4,323
Times: 12 Months		12		12	12
Total Annual Pro Forma Premium		<u>\$ 76,119</u>		<u>\$ (24,240)</u>	51,876
Less: Test Year					<u>(75,356)</u>
Employee Pension and Benefits Adjustment					(23,480)
Less: Commission Staff Recommended Adjustment					<u>26,899</u>
Final Pro Forma Employee Pensions and Benefits adjustment					<u>\$ 3,419</u>

The Commission finds that Commission Staff's recommended adjustments are reasonable and Western Mason District's Employee Pensions and Benefits – Insurance should be reduced by \$23,480 because it is consistent with the precedent established in previous cases regarding the evaluation of employees' total compensation packages for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate.

Depreciation. In its application, Western Mason District proposed a decrease in Depreciation Expense by \$34,667 to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled Depreciation Practices for Small Water Utilities (NARUC Study).³⁶

Upon examination, Commission Staff agrees with Western Mason District's methodology to adjust depreciation expense; however, Commission Staff calculated a depreciation expense of \$189,585. To evaluate the reasonableness of the depreciation

³⁶ Application, Attachment 4, Adjustment F.

practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979. 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 found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff decreased Western Mason District's Depreciation Expense to \$189,585, a difference of \$40,661, which is \$5,994 less than proposed by Western Mason District, as shown below.

<u>Categories</u>	<u>Service Life Range</u>	<u>Test Year Depreciation</u>	<u>Depreciation Adjustment</u>	<u>Pro Forma Depreciation</u>
303 Land and Land Rights	N/A	\$ -	\$ -	\$ -
304 Structures and Improvements	35 - 40	15,468	1,031	16,499
311 Pumping Equipment	20	33,927	4,544	38,471
320 Water Treatment Equipment	20 - 35	621	(169)	452
330/342 Distribution Reserv. & Standpipe	30 - 60	29,018	(3,869)	25,149
331/343 Transmission and Distribution Mair	50 - 75	114,493	(41,105)	73,388
333/345 Services	30 - 50	377	(4)	373
334/346 Meters and Meter Installations	20	9,797	-	9,797
335 Hydrants	40 - 60	1,198	(240)	958
340 Office Furniture and Equipment	20 - 25	3,507	(1,385)	2,122
341 Transportation Equipment	7	16,455	(4,701)	11,753
343 Tools, Shop, and Garage Equipment	15 - 20	129	(18)	111
348 Other Tangible Plant	20	5,256	5,256	10,512
Total		<u>\$ 230,246</u>	<u>(40,661)</u>	<u>\$ 189,585</u>
Less: Western Mason District's Proposed Adjustment			<u>34,667</u>	
Commission Staff's Proposed adjustment			<u>\$ (5,994)</u>	

The Commission finds Commission Staff's recommended adjustment is reasonable and Western Mason District's Depreciation expense is decreased by \$40,661, in order to align Western Mason District's capital assets' useful lives with the NARUC recommended useful lives.

Taxes Other Than Income. In its application, Western Mason District proposed an adjustment to decrease Taxes Other Than Income by \$261 to account for changes in payroll taxes due to the proposed change in wage rates.³⁷ However, as explained above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$254,910.

Therefore, Commission Staff calculated a pro forma Taxes Other Than Income of \$20,974; an increase of \$628, which is \$889 more than proposed by Western Mason District, as shown below.

	<u>Commission Staff's Recommendation</u>
Salaries and Wages - Employees	\$ 254,910
Salaries and Wages - Officers	14,400
	<hr/>
Total Pro Forma Salaries & Wages	269,310
Times: 7.65 Percent FICA Rate	7.65%
	<hr/>
Total Pro Forma Payroll Taxes: Employer's Responsibility FICA	20,602
Plus: Payroll Tax Expense	207
Plus: Payroll Tax Expense: KY Unemployment Insurance	165
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Total Taxes other than Income	20,974
Less: Adjusted Test Year Taxes other than Income	(20,346)
	<hr/>
Payroll Tax Adjustment	628
Less: Western Mason District's Proposed Adjustment	261
	<hr/>
Commission Staff's Proposed Adjustment	<u>\$ 889</u>

The Commission finds that Commission Staff's recommended adjustments are reasonable and Western Mason District's Taxes other than Income should be increased

³⁷ Application, Attachment 4, Adjustment C.

by \$628 because the change is a direct result of changes to Salaries and Wages – Employees.

Gains (Losses) from Disposition of Utility Property. During the test year, Western Mason reported \$5,048 from recycling or scrapping materials;³⁸ which was not a usual occurrence.³⁹ Therefore, it is not a routine transaction in the normal course of business and should be removed from the test year. Commission Staff made an adjustment to decrease Gains on the Disposition of Property of \$5,048 to remove the effects of this extraordinary transaction as this category does not consider transactions that are not routine and encountered during the normal course of business.

The Commission finds that Commission Staff’s recommended adjustments are reasonable and should be accepted because the recycling or scrapping materials expense was not a routine transaction encountered in the normal course of business.

Based upon the Commission’s findings discussed and modified above, the following table summarizes Western Mason District’s adjusted pro forma:

	<u>Commission Staff Report Pro Forma</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Total Operating Revenues	\$ 834,740	\$ 90	\$834,830
Utility Operating Expenses	<u>745,312</u>	<u>-</u>	<u>745,312</u>
Utility Operating Income	89,428	90	89,518
Gains (Losses) from Disposal of Utility Property	-	-	-
Interest and Dividend Income	93.00	-	93
Nonutility Income	<u>11,940</u>	<u>-</u>	<u>11,940</u>
Income Available for Debt Service	<u>\$ 101,461</u>	<u>\$ 90</u>	<u>\$ 101,551</u>

³⁸ Western Mason District’s Response to Staff’s Second Request (filed Oct. 9, 2023), Item 4a.

³⁹ Western Mason District’s Response to Staff’s Second Request (filed Oct. 9, 2023), Item 4b.

REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations.⁴⁰ 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;⁴¹ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

	Commission Staff Proposed	Commission Approved
Pro Forma Operating Expenses	\$ 745,312	745,312
Plus: Avg. Annual Principal and Interest Payments	241,128	241,128
Additional Working Capital	48,226	48,226
 Total Revenues Requirement	 1,034,666	 1,034,666
Less: Other Operating Revenue	(31,541)	(31,631)
Non-operating Revenue	(11,940)	(11,940)
Interest and Dividend Income	(93)	(93)
 Revenue Required From Water Sales	 991,092	 991,002
Revenue from Sales at Present Rates	(803,199)	\$ (803,199)
 Required Revenue Increase	 187,893	 187,803
Percentage Increase	23.39%	23.38%

⁴⁰ Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022); Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

⁴¹ 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).

Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Western Mason District had seven outstanding United States Department of Agriculture, Rural Development (RD) waterworks revenue bond⁴² and one outstanding Kentucky Infrastructure Authority (KIA) loan.⁴³ In its application, Western Mason District requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the five years following the test year, which is 2023 through 2027.⁴⁴ However, because the statutory date for a final Order to be issued in this proceeding is May 10, 2024, the 2023 payments will be recovered through Western Mason District's existing rates. Therefore, only Debt Service payments that will be made after the new rates are placed into effect

⁴² Case 1989-00137, *The Application of Western Mason County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Jun. 16, 1989); Case 1997-00057, *The Application of the Western Mason County Water District, a Water District Organized Pursuant to Chapter 74 of the Kentucky Revised Statutes, In Mason County, Kentucky, For (1) a Certificate of Public Convenience and Necessity, Authorizing and Permitting Said Water District to Construct Water Distribution System Improvements, Consisting of Construction of Booster Pump Station, Appurtenances and 2.25 Miles of 10" Trans-Mission Line from City of Maysville System) Along AA Highway to Highland Heights Tank and (2) Approval of the Proposed Plan of Financing of Said Project* (Ky. PSC Apr. 21, 1997); Case 2001-00267, *The Application of Western Mason County Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023* (KY. PSC Oct. 3, 2001); Case 2007-00318, *The Application of the Western Mason County Water District, a District Organized Pursuant to Chapter 74 of the Kentucky Revised Statutes, in Mason County, Kentucky, for (1) a Certificate of Public Convenience and Necessity, Authorizing and Permitting Said Western Mason County Water District to Construct Water Distribution System Improvements, Consisting of the Construction of Extensions, Additions and Improvements to the District's Water System; (2) the Approval of the Proposed Plan of Financing Said Improvements; and (3) an Increase in the Rates and Charges for Water Service Provided by Western Mason County Water District* (KY. PSC Aug. 3, 2007); Case 2009-00477, *Application of Western Mason County Water District for a Certificate of Public Convenience and Necessity to Construct Water Distribution System Improvements, Approval of the Proposed Plan of Financing and an Increase in Rates and Charges* (Ky. PSC Jan. 6, 2010); Case 2020-00198, *Electronic Application of the Western Mason County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Sept. 22, 2020).

⁴³ Case No. 2009-00477, *Application of Western Mason County Water District for a Certificate of Public Convenience and Necessity to Construct Water Distribution System Improvements, Approval of the Proposed Plan of Financing and an Increase in Rates and Charges* (Ky. PSC Jan. 6, 2010).

⁴⁴ Application, Attachment 4, Debt Service Schedule Table.

should be considered in determining Western Mason District’s Annual Interest and Fees expense. Commission Staff calculated the average annual principal and interest on a five-year average for the years 2024 through 2028. As shown below, Commission Staff calculated an Average Principal and Interest of \$241,128. The Commission agrees with Commission Staff’s recommendation since Western Mason District provided the amortization schedule for its existing debt.⁴⁵

	2024		2025		2026		2027		2028		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
Series 1988 (91-02)	\$17,000	\$ 5,578	\$ 18,000	\$ 4,600	\$ 20,000	\$ 3,565	\$ 20,000	\$ 2,415	\$ 22,000	\$ 1,265	\$ 114,423
Series 1997 (91-05)	6,500	5,314	6,500	4,997	7,000	4,680	7,500	4,339	7,500	3,973	58,303
Series 2001 (91-06)	6,500	8,503	6,500	8,194	7,000	7,885	7,500	7,553	7,500	7,196	74,331
Series 2007A (91-08)	23,000	40,513	24,000	39,506	25,000	38,456	26,000	37,363	27,000	36,225	317,063
Series 2007B (91-010)	5,000	7,930	5,000	7,723	5,500	7,517	5,500	7,289	5,500	7,062	64,021
Series 2010 (91-11)	13,500	17,415	13,500	17,010	14,000	16,605	14,500	16,185	15,000	15,750	153,465
Series 2021 (91-13)	27,500	43,845	28,000	43,020	28,500	42,180	29,000	41,325	29,500	40,455	353,325
Loan #F209-14	11,981	2,248	12,222	1,977	12,468	1,700	12,718	1,418	12,974	1,005	70,711
Total	\$99,000	\$ 129,098	\$101,500	\$ 125,050	\$ 107,000	\$ 120,888	\$ 110,000	\$ 116,469	\$ 126,974	\$ 112,931	1,205,642
					Total						5
					Divide by: 5 years						
					Average Annual Principal and Interest Payments						<u>\$ 241,128</u>

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, Western Mason District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its (RD) Waterworks Revenue Bonds and KIA loan at the time of its application.

Following the Commission’s historic practice, Commission Staff agrees with Western Mason District. Therefore, as calculated below and shown in the table above, \$48,226 is included in the revenue requirement. The Commission agrees with

⁴⁵ Revised cover letter and ARF application based upon 2022 test year, (filed June 14, 2023), Attachment 8.

Commission Staff's recommendation since the Additional Working Capital is a direct result of the Average Annual Principal and Interest Payments.

Average Annual Principal and Interest Times: DSC Coverage Ratio	\$ 241,128 <u>120%</u>
Total Net Revenues Required	289,354
Less: Average Annual Principal and Interest Payments	<u>(241,128)</u>
Additional Working Capital	<u>\$ 48,226</u>

RATE DESIGN

Western Mason District proposed to increase its monthly retail and bulk sale water service rates by approximately 27.06 percent across the board. Western Mason District did not file a cost-of-service study (COSS). Western Mason District stated that it did not complete a COSS at this time as there have been no material changes in the water system.⁴⁶

The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Since no COSS was conducted, and because there was no evidence that allocating revenue increase across the board was unreasonable.⁴⁷ Commission Staff allocated the \$187,803 revenue increase evenly across the board to Western Mason District's monthly retail and bulk sale water service rates.

⁴⁶ Commission Staff's Report at 5.

⁴⁷ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan 5, 2022).

Commission Staff informed the Commission that an error in the calculation was made by Commission Staff in the Commission Staff Report. The Commission directed Commission Staff to resolve this error and recalculate the rates.

The rates, recalculated at the direction of the Commission and which are set forth in the Appendix B 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 \$991,001 Revenue Required from Rates. The rates will increase a typical residential customer's monthly water bill from \$57.56 to \$71.27 an increase of \$13.71 or 23.80 percent.⁴⁸

Western Mason District in response to Staff's First Request stated the 1st of the month would be appropriate for the effective date. The Commission therefore finds that the effective date for all general water service rates and all the nonrecurring charges should be effective on the 1st day of the month.⁴⁹

The Commission finds that the rates, as modified, should be accepted based on the evidence provided and because the revenue requirement and the method used by Commission Staff follows Commission precedent.

Nonrecurring Charges. Following the Commission's recent decisions,⁵⁰ Commission Staff has reviewed Western Mason District's Nonrecurring Charges. The

⁴⁸ The typical residential customer uses approximately 4,000 gallons per month. Application, Attachment 1.

⁴⁹ Western Mason District's Response to Staff's First Request, Item 13(b).

⁵⁰ 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).

Commission found that because district personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated to avoid double recovery of the same expense. Commission Staff reviewed the cost justification information provided by Western Mason District and adjusted these charges by removing Field Labor Costs of an average rate of \$37.52 per hour and Office/Clerical Labor Costs of an average rate of \$20.67 per hour from those charges which occur during normal business hours.⁵¹ Western Mason District proposed the elimination of the Meter Reread Fee and Commission Staff concurred with this proposal. The following chart highlights Commission Staff's updated Nonrecurring Charges. Appendix A contains the calculations supporting the adjustments to the nonrecurring charges.⁵²

<u>Nonrecurring Charge</u>	<u>Amount</u>
Meter Reread Fee	\$ -
Reconnect Fee	21.00
Returned Check Fee	10.50
Turn On Charge	10.00

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted because the evidence filed into the record have been analyzed and evaluated by Commission Staff.

⁵¹ Commission Staff's Report at 6.

⁵² See Appendix A.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report are supported by the evidence of record and are reasonable. By applying the Debt Service Coverage method to Western Mason District's pro forma operations results in an Overall Revenue Requirement of \$1,034,666 and that an \$187,803 revenue increase, or 23.38 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted as modified in this Order and incorporated by reference into this Order.
2. The water service rates proposed by Western Mason District are denied.
3. The water service rates set forth in the Appendix B to this Order are approved for service rendered by Western Mason District on or after February 1, 2024.
4. The nonrecurring charge rates set forth in the Appendix B to this Order are approved for service rendered by Western Mason District on or after February 1, 2024.
5. Within 20 days of the date of service of this Order, Western Mason District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



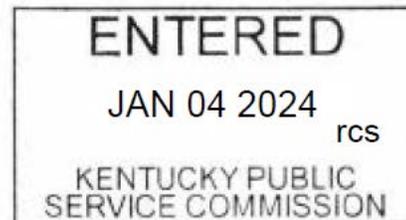
Chairman



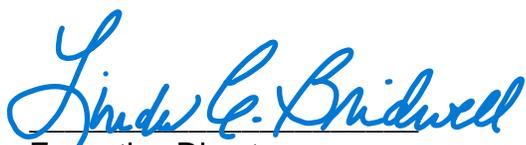
Vice Chairman



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00182 DATED JAN 04 2024

Nonrecurring Charges Adjustments

Meter Reread Charge

	Western Mason Revised Charge	Staff Revised Charge
Western Mason District has requested this charge be eliminated from its Tariff.	\$0.00	\$0.00

Returned Check Charge

	Western Mason Revised Charge	Staff Revised Charge
Field Labor Overtime at \$0.00 for 0.0 hour	\$0.00	\$0.00
Supplies	2.00	2.00
Office Labor at \$22.50 for 1.00 hours	22.50	0.00
Transportation Expense	1.50	1.50
Bank Fee	7.00	7.00
Total Nonrecurring Charge Expense	\$33.00	\$10.50
Rounded Down to	\$33.00	\$10.50
Current Rate	\$25.00	

Reconnection Charge

	Western Mason Revised Charge	Staff Revised Charge
Materials, Pin Lock	\$2.83	\$2.83
Field Labor Overtime at \$55.00 for 2.0 hour	110.00	\$0.00
Supplies	2.00	2.00
Office Labor at \$17.00 for 1.00 hours	17.00	0.00
Transportation Expense	16.00	16.00
Total Nonrecurring Charge Expense	\$147.83	\$20.83
Rounded Down to	\$148.00	\$21.00
Current Rate	\$65.00	

Turn On Charge

	Western Mason Revised Charge	Staff Revised Charge
Field Labor \$25.00 for 1.0 hour	\$25.00	\$0.00
Supplies	2.00	2.00
Office Labor at \$15.00 for 1.0 hours	15.00	0.00
Transportation Expense	8.00	8.00
Total Nonrecurring Charge Expense	\$50.00	\$10.00
Rounded Down to	\$50.00	\$10.00
Current Rate	\$40.00	

	Num.	Current Rate	Total	Revised Rate	Adj	Pro Forma
Miscellaneous Service Revenues:						
Meter Reread Fee	0	\$25.00	\$0.00	\$0.00		being eliminated
Reconnect Fee	46	\$25.00	\$1,150.00	\$21.00	(184.00)	\$966.00
Returned Check Fee	4	\$25.00	\$100.00	\$10.50	(58.00)	\$42.00
Turn On Charge	7	\$25.00	\$175.00	\$10.00	(105.00)	\$70.00
Total Miscellaneous Service Revenues			\$1,425.00		(\$347.00)	\$1,078.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00182 DATED JAN 04 2024

The following rates and charges are prescribed for the customers in the area served by Western Mason 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

First	2 ,000 Gallons	\$55.15	Minimum Bill
Next	8 ,000 Gallons	0.008306	Per Gallon
Over	10 ,000 Gallons	0.00701	Per Gallon

<u>Bulk Sales</u>	0.00843	Per Gallon
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Nonrecurring Charges

Meter Reread Fee	\$0.00
Reconnect Fee	\$21.00
Returned Check Fee	\$10.50
Turn On Charge	\$10.00
5/8-Inch Meter Tap Fee	\$1,840.00

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