

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH	)	CASE NO.
MERCER WATER DISTRICT FOR A RATE	)	2023-00185
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of January 12, 2024,<sup>1</sup> as amended by Orders entered April 10, 2024,<sup>2</sup> and May 24, 2024,<sup>3</sup> the attached report containing the recommendations 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 May 24, 2024 Order, North Mercer Water District (North Mercer District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs North Mercer District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>4</sup> regarding filings with the Commission.

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<sup>1</sup> Order (Ky. PSC Jan. 12, 2024).

<sup>2</sup> Order (Ky. PSC Apr. 10, 2024).

<sup>3</sup> Order (Ky. PSC May 24, 2024).

<sup>4</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).



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

DATED   JUN 13 2024  

cc: Parties of Record

COMMONWEALTH OF KENTUCKY  
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COMMISSION STAFF'S REPORT  
ON NORTH MERCER WATER DISTRICT

North Mercer Water District (North Mercer 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 4,532 residential customers, 139 commercial customers, 12 public authorities, 67 Multiple Family Dwellings, and 1 Bulk Loading Station that reside in Anderson, Boyle, Mercer, and Washington counties, Kentucky.<sup>1</sup>

On December 27, 2023,<sup>2</sup> North Mercer District filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR

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<sup>1</sup> *Annual Report of North Mercer District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

<sup>2</sup> North Mercer District tendered its application on June 12, 2023. By letter dated June 28, 2023, the Commission rejected the application for filing deficiencies. North Mercer District requested a deviation from the test year requirement or, in the alternative, an extension of time to amend its application in a response filed on July 20, 2023. By Order dated September 12, 2023, North Mercer District's request for deviation was denied and its request for extension of time to amend its application using the correct test year was granted. North Mercer District filed an amended application on December 14, 2023. By letter dated December 18, 2023, the Commission rejected the amended application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on December 27, 2023.

5:076. To comply with the requirements of 807 KAR 5:076, Section 9,<sup>3</sup> North Mercer District used the calendar year ended December 31, 2022, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2021-00317, which required North Mercer District to file an application for an adjustment of its base rates by October 6, 2022.<sup>4</sup> North Mercer District requested an extension of time to file for its base rates case and was denied.<sup>5</sup> North Mercer District was ordered on November 7, 2022, to file an alternative rate filing (ARF) case as soon as possible.<sup>6</sup> North Mercer District's last base rate increase pursuant to the ARF procedure was in Case No. 2016-00325.<sup>7</sup> Since that matter, North Mercer District has only adjusted its rates pursuant to purchased water adjustments or in conjunction with an application for a Certificate of Public Convenience and Necessity. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 12, 2024,<sup>8</sup> and amended it by Orders entered April 10, 2024,<sup>9</sup> and May 24, 2024.<sup>10</sup>

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<sup>3</sup> 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.

<sup>4</sup> Case No. 2021-00317, *Electronic Application of North Mercer Water District for a Certificate of Public Convenience and Necessity* (Ky. PSC October 6, 2021), Order.

<sup>5</sup> Case No. 2021-00317, *Electronic Application of North Mercer Water District for a Certificate of Public Convenience and Necessity* (Ky. PSC November 7, 2022), Order.

<sup>6</sup> Case No. 2021-00317, *Electronic Application of North Mercer Water District for a Certificate of Public Convenience and Necessity* (Ky. PSC November 7, 2022), ordering paragraph 2.

<sup>7</sup> Case No. 2016-00325, *Electronic Application of North Mercer Water District for Rate Adjustment* (Ky. PSC May 19, 2017), final Order.

<sup>8</sup> Order (Ky. PSC Jan. 12, 2024).

<sup>9</sup> Order (Ky. PSC Apr. 10, 2024).

<sup>10</sup> Order (Ky. PSC May, 24, 2024).

Commission Staff's First Request for Information (Staff's First Request) was issued as an Appendix to the procedural schedule issued on January 12, 2024, with a response to Staff's First Request filed on February 14, 2024.<sup>11</sup> Commission Staff's Second Request for Information (Staff's Second Request) was issued on February 29, 2024, with a response to Staff's Second Request filed on March 13, 2024.<sup>12</sup> An informal conference (IC) was held on April 18, 2024, to clarify certain responses to data requests. A memo summarizing the conference was filed in the record.<sup>13</sup> On April 24, 2024, North Mercer District filed into the record supplemental information requested during the informal conference.<sup>14</sup> Upon further review of North Mercer District's response to Staff's Second Request, unredacted confidential information was discovered in the public record and the information was removed. North Mercer District refiled two redacted responses on May 16, 2024.<sup>15</sup>

### UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, North Mercer District reported a water loss of 18.9082 percent.<sup>16</sup> 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

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<sup>11</sup> North Mercer District's Response to Staff's First Request (filed Feb. 14, 2024).

<sup>12</sup> North Mercer District's Response to Staff's Second Request (filed Mar. 13, 2024).

<sup>13</sup> IC Memo and Attendance Sheet (Ky. PSC Apr. 19, 2024).

<sup>14</sup> North Mercer District Information Requested at Informal Conference (filed Apr. 24, 2024).

<sup>15</sup> Redacted Invoices for North Mercer District (filed May 16, 2024), Redacted Invoices May\_16 (filed May 16, 2024).

<sup>16</sup> 2022 Annual Report at 57.

in its own operations. North Mercer District’s water loss for 2020 and 2021 was 18.8064 percent and 23.8601 percent, respectively.<sup>17</sup> The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission views excessive water loss as a potential warning sign of the financial health and operational well-being of water utilities.<sup>18</sup> The table below shows that the 2022 total annual cost of water loss to North Mercer District is \$205,712, while the annual cost of water loss in excess of 15 percent is \$42,519.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,052,492	\$ 35,460	\$ 1,087,952
Water Loss Percent	18.9082%	18.9082%	
Total Water Loss	\$ 199,007	\$ 6,705	\$ 205,712

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,052,492	\$ 35,460	\$ 1,087,952
Water Loss In Excess of 15%	3.9082%	3.9082%	
Disallowed Water Loss	\$ 41,133	\$ 1,386	\$ 42,519

## DISCUSSION

Using its pro forma test-year operations, North Mercer District determined that a base rate revenue increase of \$265,098, or 8.97 percent, was necessary to achieve the revenue requirement as shown in the table below.<sup>19</sup> North Mercer District’s revenue and percent increase do not match due to rounding.

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<sup>17</sup> *Annual Report of North Mercer District to the Public Service Commission for the Calendar Year Ended December 31, 2020*, at 57 and *Annual Report of North Mercer District to the Public Service Commission for the Calendar Year Ended December 31, 2021* at 57.

<sup>18</sup> Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (filed Mar. 12, 2019), Order.

<sup>19</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations.

Pro Forma Operating Expenses	\$ 2,775,549
Plus: Average Annual Principal and Interest Payments	457,552
Additional Working Capital	<u>91,510</u>
Total Revenue Requirement	3,324,612
Less: Other Operating Revenue	(77,798)
Income from Leased utility plant	(6,000)
Interest Income and Dividend Income	<u>(20,869)</u>
Revenue Required From Water Sales	3,219,945
Less: Revenue from Sales with Present Rates	<u>(2,954,846)</u>
Required Revenue Increase	<u>\$ 265,098</u>
Percent Increase	<u>8.97%</u>

To determine the reasonableness of the rates requested by North Mercer District, Commission Staff performed a limited review of North Mercer 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 measurable<sup>20</sup> changes to test-year operations were identified, and adjustments were 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. Noah Abner reviewed the calculation of North Mercer District’s Overall Revenue Requirement, and Eddie Beavers reviewed North Mercer District’s reported revenues and rate design.

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<sup>20</sup> Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes.” See also Case No. 2001-00211, *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); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

## SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage method, as used by North Mercer District, and generally accepted by the Commission, Commission Staff found that North Mercer District's revenue from water sales is \$3,275,950 to meet the Overall Revenue Requirement of \$3,386,673, and that a \$321,104 revenue increase, or 10.87 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. North Mercer District proposed to increase its monthly retail water service rates by approximately 8.97 percent across the board through its Rate Study.<sup>21</sup> However, North Mercer District filed a corrected version of its Rate Study in its response to Staff's Second Request in which North Mercer then proposed to increase its monthly retail water service rates by approximately 11.25 percent across the board.<sup>22</sup> Commission Staff utilized the revised Rate Study provided by North Mercer District and allocated Commission Staff's recommended \$346,456 revenue increase to the monthly retail water service rates.

While Commission Staff recommends a 10.87 percent revenue increase, it notes that a 10.87 percent across the board increase to its water rates would result in an approximate \$17,025 over-recovery, which results in rates that are not fair, just and reasonable to North Mercer District's customers. Commission Staff notes that the rate study provided by North Mercer District, reflected a \$17,423 over-recovery of water

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<sup>21</sup> North Mercer District's Response to Staff's First Request, Item 19.

<sup>22</sup> North Mercer District's Response to Staff's Second Request, Item 7b.

rates.<sup>23</sup> Therefore, to properly meet the \$3,301,302 Revenue Requirement from Water Sales, Commission Staff increased recommended water rates by approximately 10.33 percent across the board to ensure that the discrepancy is minimized while providing fair, just and reasonable rates to North Mercer District's customers.

The rates, as calculated by Commission Staff, which are set forth in Appendix B to this report, are based upon the revenue requirement, and will produce sufficient revenues from water sales to recover the \$3,301,302 Revenue Required from Rates. The rates will increase a typical residential customer's monthly water bill using 4,000 gallons a month from \$50.12 to \$55.30, an increase of \$5.18, or approximately 10.33 percent.<sup>24</sup>

3. Nonrecurring Charges. Following the Commission's recent decisions,<sup>25</sup> Commission Staff has reviewed North Mercer District's nonrecurring charges. The 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. Commission Staff reviewed the cost justification information provided by North Mercer District and adjusted these charges by removing Field Labor Costs and

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<sup>23</sup> North Mercer District's Response to Staff's First Request, Item 1d, [https://psc.ky.gov/pscecf/2023-00185/SReid312%40Outlook.com/02142024105221/1\\_d\\_2022\\_TY\\_North\\_Mercer\\_Rate\\_Study.xlsx](https://psc.ky.gov/pscecf/2023-00185/SReid312%40Outlook.com/02142024105221/1_d_2022_TY_North_Mercer_Rate_Study.xlsx), tab PrBA, cell G11.

<sup>24</sup> The typical residential customer uses approximately 4,000 gallons per month. Application, Attachment 1.

<sup>25</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and 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).

Office/Clerical Labor Costs from those charges which occur during normal business hours.<sup>26</sup>

Description	Num.	Current Rate	Total	Revised Rate	Adj	Pro Forma
Meter Reinstall	0	\$50	\$0	\$42	\$0	\$0
Meter Reread Charge	0	\$45	0	\$37	0	0
Meter Test Charge	0	\$75	0	\$40	0	0
Reconnect Charge	323	\$50	16,150	\$59	2,907	19,057
Returned Check Charge	83	\$25	2,075	\$6	(1,577)	498
Service Call Charge	166	\$30	4,980	\$37	1,162	6,142
Service Call After Hours Charge	0	\$50	0	\$153	0	0
Service Call and Unlock Charge	0	\$30	0	\$37	0	0
Total Miscellaneous Service Revenues			<u>\$23,205</u>		<u>\$2,492</u>	<u>\$25,697</u>

The calculation of these revised rates is displayed below and the table to show the calculations can be found in Appendix A attached to this Commission Staff's Report.

<u>Description</u>	<u>Current Rate</u>	<u>Revised Rate</u>
Meter Reinstall	\$50	\$42
Meter Reread Charge	\$45	\$37
Meter Test Charge	\$75	\$40
Reconnect Charge	\$50	\$59
Returned Check Charge	\$25	\$6
Service Call Charge	\$30	\$37
Service Call After Hours Charge	\$50	\$153
Service Call and Unlock Charge	\$30	\$37

4. Tap Fee. North Mercer District did not request revisions to its current Tap Fee of \$1,400.

<sup>26</sup> North Mercer District's Response to Staff's First Request, Item 15.

## PRO FORMA OPERATING STATEMENT

North Mercer District's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.

<i>Water Division</i>	<b>Test Year</b>	<b>Proposed Adjustment</b>	<b>Commission Staff Adjustment</b>	<b>Total Adjustment (Ref.)</b>	<b>Pro Forma</b>
<b><u>Operating Revenues</u></b>					
Total Metered Retail Sales	\$ 2,891,183	\$ 63,663		\$ 63,663 (A)	\$ 2,954,846
Other Water Revenues:					
Forfeited Discounts	30,838		2,212	2,212 (B)	33,050
Misc. Service Revenue	21,853		3,844	3,844 (B)	25,697
Other Water Revenue	25,107				25,107
<b>Total Operating Revenues</b>	<b>2,968,981</b>	<b>63,663</b>	<b>6,056</b>	<b>69,719</b>	<b>3,038,700</b>
<b><u>Operating Expenses</u></b>					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	591,437	72,452	38,376	110,828 (C)	702,265
Salaries and Wages - Commissioners	29,602	398		398 (D)	30,000
Employee Pensions and Benefits	365,747	(43,944) (9,930)	41,878 (16,395)	(2,066) (26,325) (E) (F)	337,356
Purchased Water	931,374	121,118 (36,400)	(4,733)	121,118 (41,133) (G) (H)	1,011,359
Purchased Power	35,460	(1,386)		(1,386) (I)	34,074
Materials and Supplies	40,351				40,351
Contractual Services:					
Accounting	11,300				11,300
Legal	6,000				6,000
Water Testing	6,045				6,045
Other	40,028				40,028
Transportation Expenses	42,756				42,756
Insurance - Gen. Liab. & Workers Comp	29,282				29,282
Insurance - Worker's Compensation	6,792				6,792
Bad Debt	17,262				17,262
Miscellaneous Expenses	61,422				61,422
<b>Total Operation and Maintenance Expenses</b>	<b>2,214,858</b>	<b>102,308</b>	<b>59,126</b>	<b>161,434</b>	<b>2,376,292</b>
Depreciation Expense	466,529	(65,094)		(65,094) (J)	401,435
Taxes Other Than Income	53,494	3,454	2,936	6,390 (K)	59,884
<b>Total Operating Expenses</b>	<b>2,734,881</b>	<b>40,668</b>	<b>62,062</b>	<b>102,730</b>	<b>2,837,611</b>
<b>Net Operating Income</b>	<b>234,100</b>	<b>22,995</b>	<b>(56,006)</b>	<b>(33,011)</b>	<b>201,089</b>
Interest Income	28,745	(7,876)		(7,876) (L)	20,869
<b>Income Available to Service Debt</b>	<b>\$ 262,845</b>	<b>\$ 15,119</b>	<b>\$ (56,006)</b>	<b>\$ (40,887)</b>	<b>\$ 221,958</b>

(A) Billing Analysis. North Mercer District proposed an adjustment to increase its test-year general water sales revenues of \$2,891,183 by \$63,663<sup>27</sup> to a normalized amount of \$2,954,846. Commission Staff reviewed the billing analysis and North Mercer District's reasoning behind this adjustment; it was made to match the revenue in the billing analysis,<sup>28</sup> and recommends that the Commission accept this adjustment.

(B) Miscellaneous Service Revenues. In its application, North Mercer District reported Miscellaneous Service Revenues of \$21,853 for the test year.<sup>29</sup> In response to Staff's First Request, North Mercer District provided an Excel worksheet that calculated the three Miscellaneous Service Revenues listed of \$23,205.<sup>30</sup> In addition to the discussed calculation, North Mercer District provided cost justification sheets for the Nonrecurring Charges.<sup>31</sup> Commission Staff reviewed the responses to the information requests, the cost justification sheets, and the general ledger. Commission Staff increased Miscellaneous Service Revenues by \$1,352 to account for the difference in the test year amount of \$21,853 and the stated amount in the Miscellaneous Service Revenues of \$23,205. Commission Staff reviewed the cost justification sheets and adjusted the Miscellaneous Service Revenues with an increase of \$2,492 to the proforma

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<sup>27</sup> Application, Attachment 5, [https://psc.ky.gov/pscecf/2023-00185/SReid312%40Outlook.com/12142023110529/Amended\\_Attachment\\_1\\_-\\_6\\_Mercer\\_List\\_of\\_attachments.pdf](https://psc.ky.gov/pscecf/2023-00185/SReid312%40Outlook.com/12142023110529/Amended_Attachment_1_-_6_Mercer_List_of_attachments.pdf).

<sup>28</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Reference A.

<sup>29</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations.

<sup>30</sup> North Mercer District's Response to Staff's First Request, Item 14, [https://psc.ky.gov/pscecf/2023-00185/SReid312%40Outlook.com/02142024105221/14\\_NMWD\\_NON\\_RECURRING\\_CHARGES\\_2022\\_2023.xlsx](https://psc.ky.gov/pscecf/2023-00185/SReid312%40Outlook.com/02142024105221/14_NMWD_NON_RECURRING_CHARGES_2022_2023.xlsx).

<sup>31</sup> North Mercer District's Response to Staff's First Request, Item 15.

of \$25,697<sup>32</sup> for revised revenues based upon the cost justification sheets provided. Commission Staff reduced the cost justification charges by removing field labor and office/clerical labor to nonrecurring charges that are accomplished during normal office hours. As noted above, the proposed adjustments made by Commission Staff result in a pro forma amount of \$25,697. Commission Staff recommends that the Commission accept the adjustment as Commission Staff followed the Commission's precedent in removing field labor and office/clerical labor costs.<sup>33</sup>

(C) Salaries and Wages - Employees. In its application, North Mercer District proposed a \$72,452 increase to Salaries and Wages – Employees expense to reflect increase in employee wage rates, turnover, and an additional employee.<sup>34</sup> In response to Staff's Second Request, North Mercer District provided an updated calculation of its adjustment to Salaries and Wages – Employees expense to include a new employee that started on January 8, 2024, and updated wage rates.<sup>35</sup> North Mercer District's revised Salaries and Wages – Employees expense adjustment is a \$110,828 total increase or a \$38,376 increase to the \$72,452 proposed adjustment from the application.<sup>36</sup>

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<sup>32</sup> North Mercer District's Response to Staff's First Request, Item 14, [https://psc.ky.gov/pscecf/2023-00185/SReid312%40Outlook.com/02142024105221/14\\_NMWD\\_NON\\_RECURRING\\_CHARGES\\_2022\\_2023.xlsx](https://psc.ky.gov/pscecf/2023-00185/SReid312%40Outlook.com/02142024105221/14_NMWD_NON_RECURRING_CHARGES_2022_2023.xlsx).

<sup>33</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

<sup>34</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

<sup>35</sup> North Mercer District's Response to Staff's Second Request, Item 7b.

<sup>36</sup> North Mercer District's Response to Staff's Second Request, Item 7b.

Commission Staff reviewed North Mercer District’s revised Salaries and Wages – Employees expense adjustment calculation and agree with the \$110,828 total increase.

Commission Staff recommends the Commission accept North Mercer District’s revised \$110,828 total increase to Salaries and Wages – Employees expense to reflect current employee wage rates and current employee staffing levels and is known and measurable.

(D) Salaries and Wages - Commissioners. In its application, North Mercer District proposed a \$398 increase to Salaries and Wages – Commissioners expense to reflect the five current commissioners due to a vacancy in part of 2022.<sup>37</sup> Commission Staff reviewed Mercer County Fiscal Court minutes for approval of salaries<sup>38</sup> and training records of the current commissioners.<sup>39</sup> After its review and using the table below, Commission Staff agrees with North Mercer District’s proposed \$398 increase to Salaries and Wages – Commissioners.

Commissioner	Completed 2023 Training	Pro Forma Monthly Wage	Pro Forma Yearly Wage
Sheperson	✓	\$ 500	\$ 6,000
Best	✓	500	6,000
Dennis	✓	500	6,000
Campbell	✓	500	6,000
Pinkston	✓	500	6,000
Total			30,000
Test Year ( )			(29,602)
Adjustment			<u>\$ 398</u>

<sup>37</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

<sup>38</sup> North Mercer District’s Response to Staff’s First Request, Item 9.

<sup>39</sup> North Mercer District’s Response to Staff’s First Request, Item 10.

Commission Staff recommends the Commission accept North Mercer District's proposed a \$398 increase to Salaries and Wages – Commissioners expense to reflect a full year compensation of commissioners for North Mercer District.

(E) Health and Dental Insurance. In its application, North Mercer District proposed a \$43,944 decrease to Employee Pensions and Benefits expense to reflect Commission precedent on allowable percentage contribution amounts for Health and Dental insurance.<sup>40</sup> In response to Staff's Second Request, North Mercer District provided updated benefits invoices for February 2024 along with a new benefits calculation including a new hire.<sup>41</sup> Commission Staff reviewed North Mercer District's revised calculation and notes that the district used a single coverage employer contribution of 78 percent, dental employer contribution rate of 60 percent, did not use updated insurance premiums, and used the incorrect test year amounts for Dental and Health insurance.<sup>42</sup> Commission Staff also notes that North Mercer District, based on dental insurance invoices,<sup>43</sup> is providing dental insurance to two active board members, William Best and Dennis Andrew, and one former board member who resigned in October of 2022, Roy Short.<sup>44</sup> In response to Staff's First Request, North Mercer District provided Mercer County Fiscal Court minutes that authorize board member compensation.<sup>45</sup> Providing benefits to North Mercer District board members is not mentioned in the Mercer

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<sup>40</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment D.

<sup>41</sup> North Mercer District's Response to Staff's Second Request, Item 4 and Item 7b.

<sup>42</sup> North Mercer District's Response to Staff's Second Request, Item 7b.

<sup>43</sup> North Mercer District's Response to Staff's Second Request, Item 4.

<sup>44</sup> North Mercer District's Response to Staff's Second Request, Item 1 and Item 4.

<sup>45</sup> North Mercer District's Response to Staff's First Request, Item 9.

County Fiscal Court minutes provided by the district.<sup>46</sup> Commission Staff notes that North Mercer District provides health, dental, life and disability insurance to full time employees.<sup>47</sup>

The Commission has, in the past, relied on the current Bureau of Labor Statistics (BLS) national average for an employer's share of health insurance premiums. The current BLS national average for an employer's share of health insurance premiums is a single coverage employer contribution rate of 79 percent and a family coverage employer contribution rate of 67 percent.<sup>48</sup> The Commission has, in the past, also used a dental employer contribution rate of 40 percent based on the Willis Benchmark Survey.<sup>49</sup> Commission Staff, using the tables below, recalculated North Mercer District's adjustment to Employee Pensions and Benefits expense with the additional employee, correct contribution rates, updated premiums, and removal of board commissioners' benefits, both past and present. Commission Staff calculated a total decrease of \$2,066 to Employee Pensions and Benefits expense or an increase of \$41,878 to North Mercer District's proposed \$43,944 decrease.

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<sup>46</sup> North Mercer District's Response to Staff's First Request, Item 9.

<sup>47</sup> North Mercer District's Response to Staff's First Request, Item 3.

<sup>48</sup> See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and Bureau of Labor Statistics' Share of Premiums Paid by Employer and Employee for Single Coverage, 2023, (<https://www.bls.gov/news.release/ebs2.t03.htm>), and Bureau of Labor Statistics' Share of Premiums Paid by Employer and Employee for Family Coverage, 2023, (<https://www.bls.gov/news.release/ebs2.t04.htm>).

<sup>49</sup> See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and The Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

Type of Premium	Number of Employees	Current Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	6	\$ 4,654	21%	\$ (977)	\$ 3,677
Family Health Insurance	6	10,454	33%	(3,450)	7,004
Dental Insurance	11	330	60%	(198)	132
Board Member Dental	3	124	N/A	(124)	0
Total Pro Forma Monthly Premium		15,562		(4,749)	10,813
Times: 12 Months		12		12	12
Total Annual Pro Forma Premium		<u>\$ 186,739</u>		<u>\$ (56,989)</u>	129,750
Less: Test Year Health and Dental Employee Benefits Adjustment					(131,816)
					<u>\$ (2,066)</u>

Commission Staff recommends the Commission approve Commission Staff's proposed total decrease of \$2,066 to Employee Pensions and Benefits expense to reflect current premiums for North Mercer District's employees and the allowable health insurance premium based on BLS national average for an employer's share of health insurance premiums and 40 percent for dental premiums.

(F) County Employee Retirement System (CERS). North Mercer District participates in County Employees Retirement System (CERS), which is managed by the Kentucky Public Pension Authority (KPPA).<sup>50</sup> In its application, North Mercer District proposed a \$9,930 decrease to Employee Pensions and Benefits expense to reflect a decrease in pension benefit contribution rates and changes in salaries.<sup>51</sup> In response to Staff's Second Request, North Mercer District provided an updated calculation of its adjustment to Employee Pensions and Benefits expense to include a new employee that started on January 8, 2024, and updated wage rates.<sup>52</sup> Commission Staff reviewed North

<sup>50</sup> North Mercer District's Response to Staff's Second Request, Item 3.

<sup>51</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

<sup>52</sup> North Mercer District's Response to Staff's Second Request, Item 7b.

Mercer District's update calculation and agrees with its methodology, but note that North Mercer District used a contribution percentage of 23.34 percent. The CERS contribution rate starting July 1, 2024, is 19.71 percent and the final Order in this case will be issued after that date.<sup>53</sup> Commission Staff followed the same methodology as North Mercer District and calculated a new adjustment below using the 19.71 percent contribution rate. Consistent with Commission precedent,<sup>54</sup> Commission Staff removed the \$58,544 adjustment related to GASB 68 as well as GASB 75, which did not become effective until after GASB 68. Commission Staff made a \$47,413 adjustment for the decrease in contribution rates and a \$21,087 adjustment for the increase in salary and wages expense. Commission Staff calculated a total decrease of \$26,325 or a \$16,395 decrease to North Mercer District proposed \$9,930 decrease.

SAO	Test Year	Adjustment	Pro Forma
Contributions	\$ 163,985	\$ (47,413)	
		21,087	\$ 137,660
GASB Components (expense)	58,544	(58,544)	0
Total	<u>222,529</u>	<u>(84,869)</u>	<u>137,660</u>
Retirement Calculations			
Test Year Wages Applicable to CERS	591,437	106,988	698,425
Contribution Rate	26.50%		19.71%
Total	<u>\$ 163,985</u>	<u>\$ (26,325)</u>	<u>137,660</u>
Contribution Rate			(47,413)
Increase in Wages			21,087
Total Adjustment			<u>\$ (26,325)</u>

Commission Staff recommends the Commission accept Commission Staff's \$26,325 total decrease to Employee Pensions and Benefits expense to reflect current

<sup>53</sup> Kentucky Public Pension Authority, <https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx> .

<sup>54</sup> Case No. 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of Its Water Rates Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 13, 2022), Order at 11–12.

employee wage rates, current employee staffing levels, and the CERS contribution rate that will be in effect during the issuance of the final Order.

(G) Purchased Water. North Mercer District purchases its water supply from the City of Harrodsburg and South Anderson Water District.<sup>55</sup> In its application, North Mercer District proposed a \$121,118 increase to Purchased Water expense to reflect an increase in purchased water expense due to supplier's rate increase.<sup>56</sup> In the adjustment reference, North Mercer District refers to Case No. 2023-00268, a Purchased Water Adjustment (PWA) filing.<sup>57</sup> Commission Staff notes that North Mercer District's proposed \$121,118 increase is directly from the final Order of Case No. 2023-00268.<sup>58</sup> Commission Staff agrees with proposed \$121,118 increase as calculated in the PWA final Order.

Commission Staff recommends the Commission accept North Mercer District's proposed \$121,118 increase to Purchased Water expense to reflect current purchase water rates for the district.

(H) Water Loss. In its application, North Mercer District proposed a \$36,400 decrease to Purchased Water expense to account for North Mercer District's water loss in excess of 15 percent.<sup>59</sup> Commission Staff reviewed North Mercer District's calculation of its proposed \$36,400 adjustment.<sup>60</sup> Commission Staff notes that the district used the

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<sup>55</sup> 2022 Annual Report at 54.

<sup>56</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

<sup>57</sup> Case No. 2023-00268, *Electronic Application of North Mercer Water District for a Purchased Water Adjustment* (Ky. PSC Sept. 15, 2023).

<sup>58</sup> Case No. 2023-00268, *Electronic Application of North Mercer Water District for a Purchased Water Adjustment* (Ky. PSC Sept. 15, 2023), final Order at 4.

<sup>59</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

<sup>60</sup> North Mercer District's Response to Staff's Second Request, Item 7b.

test-year Purchased Water expense of \$931,374 and not the pro forma Purchased Water expense of \$1,052,492 from the \$121,118 increase from above in its calculation. Commission Staff, using the table below and pro forma Purchased Water expense, calculated a total \$41,133 decrease to Purchased Water expense or a \$4,733 decrease to North Mercer District’s proposed \$36,400 adjustment.

<u>Disallowed Water Loss</u>	<u>Purchased Water</u>
Pro Forma Purchases	\$ 1,052,492
Water Loss In Excess of 15%	<u>3.9082%</u>
Disallowed Water Loss	<u>\$ 41,133</u>

Commission Staff recommends that the Commission accept Commission Staff’s \$41,133 decrease to Purchased Water expense to accurately reflect pro forma expense associated with water loss in excess of 15 percent.

(l) Purchased Power. In its application, North Mercer District proposed a \$1,386 decrease to Purchased Power expense to account for North Mercer District’s water loss in excess of 15 percent.<sup>61</sup> Commission Staff reviewed North Mercer District’s calculation of its proposed \$1,386 adjustment and agrees.<sup>62</sup>

<u>Disallowed Water Loss</u>	<u>Purchased Power</u>
Pro Forma Purchases	\$ 35,460
Water Loss In Excess of 15%	<u>3.9082%</u>
Disallowed Water Loss	<u>\$ 1,386</u>

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<sup>61</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

<sup>62</sup> North Mercer District’s Response to Staff’s Second Request, Item 7b.

Commission Staff recommends that the Commission accept North Mercer District proposed \$1,386 decrease to Purchased Power expense to reflect Purchased Power expense associated with water loss in excess of 15 percent.

(J) Depreciation. In its application, North Mercer District proposed a \$65,094 decrease to Depreciation Expense.<sup>63</sup> The adjustment is a decrease to reflect adjustments of asset service lives to the midpoint of the service life ranges set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled, “Depreciation Practices for Small Water Utilities” (NARUC Study).<sup>64</sup> 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 outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff recommends that the Commission accept North Mercer District’s proposed \$65,094 decrease to Depreciation Expense to reflect the midpoint of the service life ranges set forth in the NARUC Study.

(K) Taxes Other Than Income. In its application, North Mercer District proposed a \$3,454 increase to Taxes Other Than Income to reflect increases in wages.<sup>65</sup> In response to Staff’s Second Request, North Mercer District provided an updated calculation of its adjustment to Taxes Other Than Income to include a new employee that

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<sup>63</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

<sup>64</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

<sup>65</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

started on January 8, 2024, and updated wage rates.<sup>66</sup> North Mercer District's revised Taxes Other Than Income adjustment is a \$6,390 total increase or a \$2,936 increase to the \$3,454 proposed adjustment from the application.<sup>67</sup> Commission Staff reviewed North Mercer District's revised Taxes Other Than Income adjustment calculation and agrees with the \$6,390 total increase.

Commission Staff recommends the Commission accept North Mercer District's revised \$6,390 total increase to Taxes Other Than Income to reflect current employee wage rates and current employee staffing levels.

(L) Interest Income. In its application, North Mercer District proposed a \$7,876 decrease to Interest Income to reflect the removal of one-time interest earnings recognized on interim financing payoff.<sup>68</sup> Commission Staff agrees with the removal of the one-time interest earning because it will not recur. Commission Staff recommends the Commission accept North Mercer District's \$7,876 decrease to Interest Income to reflect current Interest Income for the district.

### OVERALL 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. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;<sup>69</sup> (3) the

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<sup>66</sup> North Mercer District's Response to Staff's Second Request, Item 7b.

<sup>67</sup> North Mercer District's Response to Staff's Second Request, Item 7b.

<sup>68</sup> Amended Application, Attachment 4, Schedule of Adjusted Operations, Adjustment L.

<sup>69</sup> The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky.

average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

	North Mercer District	Commission Staff	
Pro Forma Operating Expenses	\$ 2,775,549	\$ 2,837,611	
Plus: Average Annual Principal and Interest Payments	457,552	457,552	(1)
Additional Working Capital	91,510	91,510	(2)
Total Revenue Requirement	3,324,612	3,386,673	
Less: Other Operating Revenue	(77,798)	(83,854)	
Income from Leased utility plant	(6,000)	(6,000)	
Interest Income and Dividend Income	(20,869)	(20,869)	(L)
Revenue Required From Water Sales	3,219,945	3,275,950	
Less: Revenue from Sales with Present Rates	(2,954,846)	(2,954,846)	
Required Revenue Increase	\$ 265,098	\$ 321,104	
Percent Increase	8.97%	10.87%	

1. Annual Principal and Interest Payments. At the time of Commission Staff's review, North Mercer District had four outstanding Kentucky Rural Water Finance Corporation bonds and one Water Works Revenue Bond.<sup>70</sup> North Mercer District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2024 through 2028.<sup>71</sup> Commission Staff agrees with the methodology North

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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).

<sup>70</sup> Amended Application, Attachment 10.

<sup>71</sup> Amended Application, Table B, Debt Service Schedule.

Mercer District proposed and recommends that \$457,552 be included in the revenue requirement calculation.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. North Mercer District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its long-term debt.<sup>72</sup> Following the Commission's historic practice of including additional working capital, Commission Staff recommends \$91,510 be included in the revenue requirement.

Average Annual Principal and Interest	\$ 457,552
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	549,062
Less: Average Annual Principal and Interest Payments	<u>(457,552)</u>
Additional Working Capital	<u><u>\$ 91,510</u></u>

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<sup>72</sup> Application, Revenue Requirements Using Debt Service Coverage Method.

Signatures

/s/Noah Abner

Prepared by: Noah Abner  
Revenue Requirement Branch  
Division of Financial Analysis

/s/ Christian Everly for Eddie Beavers

Prepared by: Eddie Beavers  
Rate Design Branch  
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00185 DATED JUN 13 2024

**Nonrecurring Charges Adjustments**

Service Call and Unlock Charge/Service Call Charge

	North Mercer Revised Charge	Staff Revised Charge
Field Materials	\$12.75	\$12.75
Field Labor	77.25	0.00
Supplies	5.98	5.98
Office Labor	10.50	0.00
Transportation Expense	2.97	2.97
Other	15.56	15.56
Total Nonrecurring Charge Expense	\$125.01	\$37.26
Rounded to	\$125.00	\$37.00
Current Rate	\$30.00	

Meter Reinstall Charge

	North Mercer Revised Charge	Staff Revised Charge
Field Materials	\$17.89	\$17.89
Field Labor	77.25	0.00
Supplies	5.98	5.98
Office Labor	10.50	0.00
Transportation Expense	2.97	2.97
Other	15.56	15.56
Total Nonrecurring Charge Expense	\$130.15	\$42.40
Rounded to	\$130.00	\$42.00
Current Rate	\$50.00	

Meter Test Charge

	North Mercer Revised Charge	Staff Revised Charge
Field Materials	\$15.20	\$15.20
Field Labor	77.25	0.00
Supplies	5.98	5.98
Office Labor	10.50	0.00
Transportation Expense	2.97	2.97
Other	15.56	15.56
Total Nonrecurring Charge Expense	\$127.46	\$39.71
Rounded to	\$127.00	\$40.00
Current Rate	\$75.00	

Meter Reread Charge

	North Mercer Revised Charge	Staff Revised Charge
Field Materials	\$12.75	\$12.75
Field Labor	77.25	0.00
Supplies	5.98	5.98
Office Labor	10.50	0.00
Transportation Expense	2.97	2.97
Other	15.56	15.56
Total Nonrecurring Charge Expense	\$125.01	\$37.26
Rounded to	\$125.00	\$37.00
Current Rate	\$45.00	

Reconnect Charge

	North Mercer Revised Charge	Staff Revised Charge
Field Materials	\$15.20	\$15.20
Field Labor	109.43	0.00
Supplies	5.98	5.98
Office Labor	10.50	0.00
Transportation Expense	2.97	2.97
Other	2.50	2.50
Insurance	0.75	0.75
Gas	31.12	31.12
Total Nonrecurring Charge Expense	\$175.00	\$58.52
Rounded to	\$175.00	\$59.00
Current Rate	\$50.00	

Returned Check Charge

	North Mercer Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Supplies	5.98	5.98
Office Labor	19.02	0.00
Transportation Expense	0.00	0.00
Total Nonrecurring Charge Expense	\$25.00	\$6.00
Rounded to	\$25.00	\$6.00
Current Rate	\$25.00	

Service Call Charge After Hours

North Mercer Revised Charge	Staff Revised Charge
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Field Materials	\$12.75	\$12.75
Field Labor	115.88	115.88
Supplies	5.98	5.98
Office Labor	10.50	0.00
Transportation Expense	2.97	2.97
Other	15.56	15.56
Total Nonrecurring Charge Expense	\$163.54	\$153.14
Rounded to	\$164.00	\$153.00
Current Rate	\$50.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00185 DATED JUN 13 2024

The following rates and charges are recommended by Commission Staff for the customers in the area served by North Mercer Water District. All other rates and charges not specifically mentioned herein should remain the same as those in effect under the authority of the Commission. .

Monthly Water Rates

5/8-Inch Meter

First	1,000 Gallons	\$22.60	Minimum Bill
Over	1,000 Gallons	0.01090	Per Gallon

1-Inch Meter

First	2,500 Gallons	\$40.49	Minimum Bill
Over	2,500 Gallons	0.01090	Per Gallon

2-Inch Meter

First	10,000 Gallons	\$121.14	Minimum Bill
Over	10,000 Gallons	0.01090	Per Gallon

Bulk Rate

0.00743	Per Gallon
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Nonrecurring Charges

Meter Reinstall	\$42
Meter Reread Charge	\$37
Meter Test Charge	\$40
Reconnect Charge	\$59
Returned Check Charge	\$6
Service Call Charge	\$37
Service Call After Hours Charge	\$153
Service Call and Unlock Charge	\$37

\*North Mercer Water District  
4795 Louisville Road  
P. O. Box 79  
Salvisa, KY 40372

\*Mischell Lee  
North Mercer Water District  
P. O. Box 79  
Salvisa, KY 40372

\*Sam Reid  
,

\*Tammy Holiday  
North Mercer Water District  
P. O. Box 79  
Salvisa, KY 40372