

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MONTGOMERY )	CASE NO.
COUNTY WATER DISTRICT NO. 1 FOR A RATE )	2023-00284
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 September 15, 2023, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's September 15, 2023 Order Montgomery County Water District #1 (Montgomery District #1) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Montgomery District #1 to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED     JAN 16 2024    

cc: Parties of Record

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

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COMMISSION STAFF'S REPORT  
ON MONTGOMERY COUNTY WATER DISTRICT #1

Montgomery County Water District #1 (Montgomery District #1) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 666 residential customers and 52 commercial customers that reside in Montgomery County, Kentucky.<sup>1</sup>

On September 7, 2023,<sup>2</sup> Montgomery District #1 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,<sup>3</sup> Montgomery District #1 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.

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<sup>1</sup> *Annual Report of Montgomery District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 39 and 12.

<sup>2</sup> Montgomery District #1 tendered its application on August 30, 2023. By letter dated August 31, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on September 7, 2023.

<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.

2022-00242<sup>4</sup> which required Montgomery District #1 to file an application for an adjustment of its base rates by August 30, 2023. Montgomery District #1's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2009-00343.<sup>5</sup> Since that matter, Montgomery District #1 has only adjusted its rates pursuant to purchased water adjustments, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity (CPCN). To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated September 15, 2023.<sup>6</sup> Montgomery District #1 responded to two discovery requests from Commission Staff.<sup>7</sup>

### WATER LOSS

Commission Staff notes that Montgomery District #1 reported water loss of 16.7207 percent in its 2022 Annual Report.<sup>8</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 in its own operations. The table below shows that the 2022 total annual cost of water loss to Montgomery District #1 is \$29,010, while the annual cost of water loss in excess of 15 percent is \$2,985.

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<sup>4</sup> Case No. 2022-00242, *Electronic Purchased Water Adjustment Filing of Montgomery County Water District No. 1* (Ky. PSC Aug. 30, 2023), final Order.

<sup>5</sup> Case No. 2009-00343, *Application of Montgomery County Water District No. 1 for Rate Adjustment* (Ky. PSC May 5, 2023).

<sup>6</sup> Order (Ky. PSC Sep. 15, 2023), Appendix A.

<sup>7</sup> Montgomery District #1's Response to Commission's First Request for Information (Staff's First Request) (filed Oct. 31, 2023). Montgomery District #1's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Nov. 29, 2023).

<sup>8</sup> 2022 Annual Report at 46.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 160,709	\$ 12,775	\$ 173,484
Water Loss Percent	16.7207%	16.7207%	
Total Water Loss	\$ 26,872	\$ 2,136	\$ 29,008

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 160,709	\$ 12,775	
Water Loss Percent	1.7207%	1.7207%	
Disallowed Water Loss	\$ 2,765	\$ 220	\$ 2,985

### DISCUSSION

Using its pro forma test-year operations, Montgomery District #1 determined that a base rate revenue increase of \$108,594, or 28.02 percent,<sup>9</sup> was necessary to achieve the revenue requirement as shown in the table below.<sup>10</sup>

Pro Forma Operating Expenses	\$ 467,425
Divided by: Operating Ratio	<u>88%</u>
Subtotal	531,165
Add: Average Annual Interest Expense	<u>4,861</u>
Total Revenue Requirement	536,026
Less: Interest Income	(138)
Other Operating Revenue	<u>(39,813)</u>
Revenue Required from Rates	496,075
Less: Normalized Revenues from Water Sales	<u>(387,511)</u>
Required Revenue Increase	<u>108,564</u>
Percentage Increase	<u>28.02%</u>

Montgomery District #1's customer notice, provides current and proposed rates, stating that if the proposed rates are approved by the Commission, a monthly bill for a

<sup>9</sup> Application, Attachment 4, 4\_SAO\_With\_Attachments.pdf.

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

customer using 4,000 gallons per month will increase from \$45.10 to 57.68, which is an increase of \$12.58 or 27.89 percent.<sup>11</sup>

To determine the reasonableness of the rates requested by Montgomery District #1, Commission Staff performed a limited financial review of Montgomery District #1's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable<sup>12</sup> changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's findings are summarized in this report. Noah Abner reviewed the calculation of Montgomery District #1's Overall Revenue Requirement, and Elizabeth Stefanski reviewed Montgomery District #1's reported revenues and rate design.

### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio method, as used by Montgomery District #1 and generally accepted by the Commission, Commission Staff found that Montgomery District #1's required revenue from water sales is \$489,165 to meet the Overall Revenue Requirement

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<sup>11</sup> Application, Attachment 1, 1\_Customer\_Notice.pdf.

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

of \$529,816, and that a \$101,655 revenue increase, or 26.23 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon the revenue requirement, Montgomery District #1 proposed to increase all of its monthly retail water service rates evenly across Montgomery District #1's rate design. Montgomery District #1 did not perform a cost-of-service study (COSS).<sup>13</sup> Montgomery District #1 stated that it did not complete a COSS at this time, as there is only one rate block for all meter sizes, therefore all customers are paying equivalent rates for water service, thus, there have been no material changes in the water system to warrant a COSS.<sup>14</sup>

The Commission has previously found that the allocation of a revenue adjustment evenly across a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by Montgomery District #1 and allocated the \$101,655 revenue increase evenly across Montgomery District #1's monthly retail water service rates.

The rates set forth in Appendix A to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$489,165 Revenue Required from Water Sales, an approximate 26.23 percent. These rates will increase the monthly water bill of a typical

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<sup>13</sup> Montgomery District #1's Response to Staff's First Request, Item 17.

<sup>14</sup> Montgomery District #1's Response to Staff's First Request, Item 17a.

residential customer using 4,000 gallons from \$45.10 to \$56.85, an increase of \$11.75, or approximately 26.05 percent.<sup>15</sup>

3. Nonrecurring Charges. Following the Commission's recent decisions,<sup>16</sup> Commission Staff has reviewed Montgomery District #1's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Montgomery District #1 provided updated cost justification information for the Nonrecurring Charges.<sup>17</sup> Commission Staff reviewed the cost justification information provided by Montgomery District #1 and have adjusted these charges by removing the \$18.54 per hour Field Labor Costs and the \$11.51 to \$26.00 per hour Office/Clerical Labor Costs from those charges that occur during normal business hours. The calculation of these adjustments to the Nonrecurring Charges are included in a table provided in Appendix B. The Commission Staff's proposed nonrecurring charges are listed below.

Late Payment Penalty	10%
Reconnection Charge	\$4.00
Meter Test Charge	\$60.00
Meter Re-read Charge	\$4.00

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<sup>15</sup>  $\$56.79$  (Average Bill New Water Rates) -  $\$45.10$  (Average Bill Current Water Rates) =  $\$11.69$  (Total Difference in Customer Bill)  $\div$   $\$45.10$  (Average Bill Current Water Rates) = 25.92%.

<sup>16</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

<sup>17</sup> Montgomery District #1's Response to Staff's First Request, Item 14\_Cost\_Justification\_Sheets\_Nonrecurring\_Charges.pdf; and Montgomery District #1's Response to Staff's Second Request, Item 7, 7\_Cost\_Justification\_Sheet\_Reconnection\_Charge.pdf, 7\_Cost\_Justification\_Sheet\_Meter\_Reread\_Charge.pdf, 7\_Cost\_Justification\_Sheet\_Returned\_Check\_Charge.pdf.

Returned Check Charge	\$0.00
Connection Charge	\$4.00
3/4 Inch Water Tap On	\$1,762.00
1- Inch Water Tap On	\$2,111.00
All Larger than 1-inch Meters	Actual

The adjustments to Nonrecurring Charges result in a decrease to test year Other Water Revenues of \$3,300 as shown below:

Nonrecurring Charge	Occurrences	Current Charge	Total	Revised Charge	Adjustment	Pro Forma
Reconnection Charge	52	\$25.00	\$1,300	\$4.00	(\$1,092)	\$208
Meter Test Charge	0	\$40.00	0	\$60.00	0	0
Meter Re-read Charge	0	\$10.00	0	\$4.00	0	0
Returned Check Charge	9	\$25.00	\$234	\$0.00	(\$234)	\$0.00
Connection Charge	94	\$25.00	<u>\$2,350</u>	\$4.00	<u>(\$1,974)</u>	<u>\$376</u>
			<u>\$3,884</u>		<u>(\$3,300)</u>	<u>\$584</u>

### PRO FORMA OPERATING STATEMENT

Montgomery District #1's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.

	Test Year	Proposed Adjustment s	Commission Staff Adjustments	Total Adjustment s	(Ref.)	Pro Forma
<b>Operating Revenues</b>						
Total Retail Metered Sales	\$ 345,210	\$ (11,363)		\$ (11,363)	(A)	
		10,486		10,486	(B)	
		29,437		29,437	(C)	
		13,740		13,740	(B)	\$ 387,510
<b>Other Water Revenues:</b>						
Other Water Revenues	43,813	(4,000)	4,000	-	(D)	
			(3,300)	(3,300)	(E)	40,513
<b>Total Operating Revenues</b>	<b>389,023</b>	<b>38,300</b>	<b>700</b>	<b>39,000</b>		<b>428,023</b>
<b>Operating Expenses</b>						
<b>Operation and Maintenance Expenses</b>						
Salaries and Wages - Employees	121,573	(581)		(581)	(F)	
		(1,200)	(300)	(1,500)	(G)	119,492
Salaries and Wages - Commissioners	7,200					7,200
Employee Pensions and Benefits	23,587	(1,440)	356	(1,084)	(H)	
		(1,747)		(1,747)	(I)	20,756
Purchased Water	143,183	5,703				
		11,823				
		(2,765)		14,761	(J)	157,944
Materials and Supplies	5,967	(2,800)	(700)	(3,500)	(G)	2,467
Contractual Services - Water Testing	7,470					7,470
Water Testing	3,847					3,847
Transportation Expense	1,503					1,503
Insurance - Gen. Liability	8,171					8,171
Bad Debt	800					800
Miscellaneous Expenses	53,335	(220)		(220)	(K)	
		16,224	(2,835)	13,389	(L)	66,504
<b>Total Operation and Maintenance Expenses</b>	<b>376,636</b>	<b>22,997</b>	<b>(3,479)</b>	<b>19,518</b>		<b>396,154</b>
Depreciation	49,432	6,036		6,036	(M)	55,468
Taxes Other Than Income	11,818	506	(1,986)	(1,480)	(N)	10,338
<b>Total Operating Expenses</b>	<b>437,886</b>	<b>29,539</b>	<b>(5,465)</b>	<b>24,074</b>		<b>461,960</b>
Net Operating Income	(48,863)	8,761	6,165	14,926		(33,937)
Interest Income	138					138
<b>Income Available to Service Debt</b>	<b>\$ (48,725)</b>	<b>\$ 8,761</b>	<b>\$ 6,165</b>	<b>\$ 14,926</b>		<b>\$ (33,799)</b>

(A) Billing Analysis. In its application, Montgomery District #1 proposed an adjustment of \$11,363 to decrease Total Metered Retail Sales for the test year of 2022.<sup>18</sup> Montgomery District #1 reported total metered water sales for the test year of \$345,210.<sup>19</sup> Montgomery District #1 provided a billing analysis to calculate a normalized revenue

<sup>18</sup> Application, 5\_Current\_\_Billing\_Analysis.pdf.

<sup>19</sup> 2022 Annual Report at 39.

amount of \$333,847, based on the usage during the test year and using the rates authorized in its current tariff.<sup>20</sup> Commission Staff recommends Commission approval of the adjustment to decrease Total Retail Metered Sales by \$11,363, for the reason that it meets the rate making criteria of being known and measurable.

(B) Purchased Water Agreements. In its application, Montgomery District #1 proposed two adjustments in the amounts of \$10,486 and \$13,740 to increase Total Metered Retail Sales for 2022.<sup>21</sup> During the test year, Montgomery District #1's rates increased for a Purchased Water Adjustment (PWA) that was effective August 1, 2022.<sup>22</sup> Additionally, Montgomery District #1's rates increased for a PWA effective August 1, 2023.<sup>23</sup> Montgomery District #1 submitted billing analyses to account for both of these rate increases. Using the rates approved in the 2022 PWA Case No. 2022-00242, Montgomery District #1 calculated an increase to Retail Metered Sales of \$10,486.<sup>24</sup> Using the rates approved in the Case No. 2023-00243, Montgomery District #1 calculated an additional increase of \$13,740.<sup>25</sup> Commission Staff recommends approval of the adjustments in the amounts of \$10,486 and \$13,740 because they meet the ratemaking criteria of being known and measurable.

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<sup>20</sup> Application, 5\_Current\_\_Billing\_Analysis.pdf, unnumbered page 1 of 4; and Case No. 2019-00213, *Purchased Water Adjustment Filing of Montgomery County Water District #1* (Ky. PSC July 23, 2019), final Order.

<sup>21</sup> Application, 5\_Current\_\_Billing\_Analysis.pdf.

<sup>22</sup> Case No. 2022-00242, *Electronic Purchased Water Adjustment Filing of Montgomery County Water District No. 1* (Ky. PSC Aug. 30, 2022), final Order.

<sup>23</sup> Case No. 2023-00243, *Electronic Purchased Water Adjustment Filing of Montgomery County Water District # 1* (Ky. PSC Aug. 17, 2023), final Order.

<sup>24</sup> Application, 5\_Current\_\_Billing\_Analysis.pdf, unnumbered page 2 of 4.

<sup>25</sup> Application, 5\_Current\_\_Billing\_Analysis.pdf, unnumbered page 4 of 4.

(C) Certificate of Public Convenience and Necessity. In its application, Montgomery District #1 proposed an adjustment of \$29,437 to increase Total Metered Retail Sales for 2022.<sup>26</sup> In 2023, Montgomery District #1 increased its service rates through a filing for a CPCN to acquire and install water system improvements.<sup>27</sup> Using the rates approved in the CPCN case, Montgomery District #1 calculated an increase to Retail Metered Water Sales of \$29,437. Commission Staff recommends Commission approval of the adjustment, for an increase to Total Metered Water Sales of \$29,437 because it meets the ratemaking criteria of being known and measurable. .

(D) Tap Fees. In its application, Montgomery District #1 proposed a \$4,000 decrease to Other Water Revenues to reflect the capitalization of Tap Fee.<sup>28</sup> In response to Commission Staff's Second Request, Montgomery District #1 stated that the correct tap-on fee revenue that was collected during the test year 2022 was \$5,000.<sup>29</sup> Upon reviewing the 2022 Trial Balance,<sup>30</sup> Commission Staff found that the Other Water Revenues totaling \$43,813, as reported in the 2022 Annual Report, is the correct amount and does not include the Tap Fee amount of \$5,000, therefore negating the necessity of the adjustment.<sup>31</sup> Commission Staff recommends the Commission approve Commission Staff's adjustments to accurately reflect actual capitalized tap on fee revenue.

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<sup>26</sup> Application, 5\_Current\_\_Billing\_Analysis.pdf, unnumbered page 3 of 4.

<sup>27</sup> Case No. 2023-00098, *Electronic Application of Montgomery County Water District # 1 for a Certificate of Public Convenience and Necessity to Acquire and Install Water System Improvements and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to 278.023* (Ky. PSC May 30, 2023), final Order.

<sup>28</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

<sup>29</sup> Montgomery District #1's Response to Staff's Second Request, Item 3.

<sup>30</sup> Montgomery District #1's Response to Staff's First Request, Item 1b\_2022\_Trial\_Balance.pdf.

<sup>31</sup> Montgomery District #1's Response to Staff's First Request, Item 1b\_2022\_Trial\_Balance.pdf.

(E) Other Water Revenue. As discussed in the Nonrecurring Charges section above, the adjustments to the nonrecurring charges result in a decrease in Other Water Revenue of \$3,300. After review of Montgomery District #1's 2022 general ledger Commission Staff notes that the remaining amount of Other Water Revenues is made up of \$22,881 of Miscellaneous Income expected to recur, \$9,909 of late fees, and \$7,373 of Job Contracting income expected to recur.<sup>32</sup> Commission Staff recommends the Commission approve Commission Staff's adjustment because it conforms with Commission precedent on Nonrecurring Charges.

(F) Salaries and Wages - Employees. In its application, Montgomery District #1 proposed a \$581 decrease to Salaries and Wages – Employees expense to reflect the current staffing level.<sup>33</sup> After review of Montgomery District #1's calculations and general ledger for 2022<sup>34</sup>, which showed updated salaries and wages for Montgomery District #1 employees, Commission Staff recommends that the Commission accept Montgomery District #1's proposed \$581 decrease to Salaries and Wages – Employees expense to reflect the current staffing level.

(G) Tap Fee Labor and Materials. In its application, Montgomery District #1 proposed a \$1,200 decrease to Salaries and Wages – Employees expense and a \$2,800 decrease to Materials and Supplies expense to reflect the capitalization of tap fee labor cost.<sup>35</sup> To calculate the decreases Montgomery District #1 used \$4,000 as a basis for its

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<sup>32</sup> Montgomery District #1's Response to Staff's First Request, Item 1a, 1a\_2022\_General\_Ledger.xlsx.

<sup>33</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

<sup>34</sup> Montgomery District #1's Response to Staff's First Request, Item 4, 4\_Employee\_Wages\_and\_Benefits.xlsx.

<sup>35</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

test year tap fee revenue.<sup>36</sup> In response to Commission Staff's Second Request, Montgomery District #1 stated that the correct tap-on fee revenue that was collected during the test year 2022 was \$5,000.<sup>37</sup> Commission Staff reviewed Montgomery District #1's 2022 general ledger and confirmed that \$5,000 was the correct amount of tap-on fee revenue collected during the test year.<sup>38</sup> Commission Staff then decreased Montgomery District #1's proposed adjustment to Salaries and Wages – Employees expense by \$300, using the calculation below, to reflect the correct amount of uncapitalized tap-on labor expense during the test year. Commission Staff then decreased Montgomery District #1's proposed adjustment to Materials and Supplies expense by \$700, using the calculation below, to reflect the correct amount of uncapitalized tap-on material expenses during the test year.

Description	No.	Charge	Total	Montgomery Adjustment	Commission Staff Adjustment
3/4" meters	4	\$ 750.00	\$ 3,000		
1" meters	2	\$ 1,000.00	2,000		
Total			<u>\$ 5,000</u>		
Labor Adjustment			\$ 1,500	\$ 1,200	\$ 300
Materials Adjustment			3,500	2,800	700
Total			<u>\$ 5,000</u>	<u>\$ 4,000</u>	<u>\$ 1,000</u>

Commission Staff recommends the Commission approve Montgomery District #1's proposed adjustment as modified by Commission Staff to accurately reflect actual uncapitalized tap on fee expense.

<sup>36</sup> Montgomery District #1's Response to Staff's First Request, Item 9a, 9a\_Excel\_Workpapers.xlsx.

<sup>37</sup> Montgomery District #1's Response to Staff's Second Request, Item 3.

<sup>38</sup> Montgomery District #1's Response to Staff's First Request, Item 1a, 1a\_2022\_General\_Ledger.xlsx.

(H) Health, Dental, and Life Insurance. In its application, Montgomery District #1 proposed a \$1,440 decrease to Employee Pensions and Benefits expense to reflect the allowable health insurance premium based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums.<sup>39</sup> Commission Staff notes Montgomery District #1 did not use updated health insurance premiums in its calculation. Commission Staff, using the table below and Montgomery District #1's updated health insurance monthly premium for 2023,<sup>40</sup> calculated a \$356 increase to Montgomery District #1's proposed \$1,440 decrease to Employee Pensions and Benefits expense to reflect the current allowable health insurance premium based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums.

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<sup>39</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

<sup>40</sup> Montgomery District #1's Response to Staff's First Request, Item 3, 3\_10-20-2023\_Invoice\_Employee\_Insurance\_Premiums.PDF.

Montgomery District #1 Adj

Description	Monthly Premium	BLS Employee Contribution Rate	Premium Adjustment	Pro Forma District Contribution
Health	\$ 661.54	21%	\$ 138.92	522.62
Life	6.30	0%	-	6.30
Dental	17.75	60%	10.65	7.10
Vision	-	0%	-	-
<b>Total</b>	<b>\$ 685.59</b>		<b>149.57</b>	<b>536.02</b>

Contrib. x No. in Tier	1	<u>536.02</u>
Allowable Annual Premium		6,432
Less Premium Paid in Test Year ( )		(7,872)
Health Insurance Adjustment		<u>\$ (1,440)</u>

Commission Staff Adj.

Description	Monthly Premium	BLS Employee Contribution Rate	Premium Adjustment	Pro Forma District Contribution
Health	\$ 699.12	21%	\$ 146.82	552.30
Life	6.30	0%	-	6.30
Dental	17.75	60%	10.65	7.10
Vision	-	0%	-	-
<b>Total</b>	<b>\$ 723.17</b>		<b>157.47</b>	<b>565.70</b>

Contrib. x No. in Tier	1	<u>565.70</u>
Allowable Annual Premium		6,788
Less Premium Paid in Test Year ( )		(7,872)
Health Insurance Adjustment		<u>\$ (1,084)</u>

	Difference
Montgomery District #1	\$ (1,440)
Commission Staff	(1,084)
<b>Total Difference</b>	<b>\$ 356</b>

Commission Staff recommends the Commission approve Commission Staff's adjustment of \$356 to Employee Pensions and Benefits expense to reflect Commission precedent on the allowable health insurance premium based on the Bureau of Labor

Statistics' (BLS) national average for an employer's share of health insurance premiums.<sup>41</sup>

(I) Pensions. In its application, Montgomery District #1 proposed a \$1,747 decrease to Employee Pensions and Benefits expense to reflect the County Employee Retirement System's (CERS) employer contribution rate that became effective on July 1, 2023, of 23.34 percent.<sup>42</sup> After review of Montgomery District #1's calculations using the new CERS contribution rate<sup>43</sup> and updated salaries and wages for Montgomery District #1 employees,<sup>44</sup> Commission Staff recommends that the Commission accept Montgomery District #1's proposed \$1,747 decrease to Employee Pensions and Benefits expense to reflect the current CERS contribution rate of 23.34 percent.<sup>45</sup>

(J) Purchased Water. Montgomery District #1 purchases all of its water supply from Mount Sterling Water and Sewer.<sup>46</sup> In its application, Montgomery District #1 proposed a \$5,703<sup>47</sup> and \$11,823<sup>48</sup>, or \$17,526 total increase to Purchased Water

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<sup>41</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.willis.com/Documents/publications/Services/Employee\\_Benefits/20151230\\_2015WillisBenefitsBenchmarkingSurveyReport.pdf](https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf)).

<sup>42</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

<sup>43</sup> Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority. (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

<sup>44</sup> Montgomery District #1's Response to Staff's First Request, Item 4, 4\_Employee\_Wages\_and\_Benefits.xlsx.

<sup>45</sup> Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority. (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

<sup>46</sup> 2022 Annual Report at 43.

<sup>47</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

<sup>48</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment J.

expense to reflect two separate purchased water adjustment cases since the test year, where Mount Sterling Water and Sewer increased the wholesale water rate.<sup>49</sup> After review of Montgomery District #1’s calculations<sup>50</sup> provided in its response to Staff’s First Request, and using the table below, Commission Staff recommends that the Commission accept Montgomery District #1’s proposed \$5,703 and \$11,823 (\$17,526 total) increase to Purchased Water expense to reflect the increase in Purchased Water expense from the two recent PWAs.

<b>Description</b>	<b>Total</b>
Gallons	43,790
Current Purchase Rate	\$ 3.6700
Pro Forma Cost	\$ 160,709
Test Year Purchase Cost ( )	(143,183)
Increase in Purchase Cost	<u>\$ 17,526</u>

In its application, Montgomery District #1 proposed a \$2,765 decrease to Purchased Water expense to account for Montgomery District #1’s water loss in excess of 15 percent.<sup>51</sup> After review of Montgomery District #1’s calculations,<sup>52</sup> provided in its response to Staff’s First Request, and using the table below, Commission Staff recommends that the Commission accept Montgomery District #1’s proposed \$2,765 decrease to Purchased Water expense to account for water loss in excess of 15 percent.

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<sup>49</sup> Case No. 2022-00242, *Electronic Purchased Water Adjustment Filing of Montgomery District #1* (Ky. PSC Aug. 30, 2022). Case No. 2023-00243, *Electronic Purchased Water Adjustment Filing of Montgomery District #1* (Ky. PSC Aug.17, 2023).

<sup>50</sup> Montgomery District #1’s Response to Staff’s First Request, Item 9a, 9a\_Excel\_Workpapers.xlsx.

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

<sup>52</sup> Montgomery District #1’s Response to Staff’s First Request, Item 9a, 9a\_Excel\_Workpapers.xlsx.

Excess Water Loss	Water
Pro Forma Purchases	160,709
Water Loss in Excess of 15%	<u>1.7207%</u>
Water Loss In Excess of Allowed Amount	<u>\$ 2,765</u>

(K) Purchased Power. In its application, Montgomery District #1 proposed a \$220 decrease to Miscellaneous expense to account for Montgomery District #1's Purchased Power expense associated with water loss in excess of 15 percent.<sup>53</sup> Montgomery District #1 stated it misclassified its Purchased Power expense under Miscellaneous expense. After review of Montgomery District #1's calculations<sup>54</sup> provided in its response to Staff's First Request, and using the table below, Commission Staff recommends that the Commission accept Montgomery District #1's proposed \$220 decrease to Miscellaneous expense to account for Purchased Power expense associated with water loss in excess of 15 percent.

Excess Water Loss	Power
Pro Forma Purchases	12,775
Water Loss in Excess of 15%	<u>1.7207%</u>
Water Loss In Excess of Allowed Amount	<u>\$ 220</u>

(L) Miscellaneous Expenses. In its application, Montgomery District #1 proposed a \$16,224 increase to Miscellaneous Expenses to reflect a new contract with United Systems Software that has higher annual fees.<sup>55</sup> Commission Staff confirmed the details of the new contract through Montgomery District #1's board meeting minutes<sup>56</sup>

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<sup>53</sup> Montgomery District #1's Response to Staff's First Request, Item 9b.

<sup>54</sup> Montgomery District #1's Response to Staff's First Request, Item 9a, 9a\_Excel\_Workpapers.xlsx.

<sup>55</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment L.

<sup>56</sup> Montgomery District #1's Response to Staff's First Request, Item 5, 5\_Year\_to\_Date\_Board\_of\_Commissioner\_Minutes.PDF.

and a copy of the contract was provided by Montgomery District #1.<sup>57</sup> When reviewing Montgomery District #1's proposed adjustment Commission Staff notes Montgomery District #1 did not remove the test year amount of software expense in its adjustment calculation.<sup>58</sup> Commission Staff reviewed Montgomery District #1's 2022 general ledger and found Montgomery District #1 had \$2,835 in software expense during the test year.<sup>59</sup> Commission Staff decreased Montgomery District #1's proposed adjustment by \$2,835. Commission Staff recommends that the Commission accept Commission Staff's adjustment to Montgomery District #1's proposed \$16,224 increase to Miscellaneous Expenses to reflect the new contract amount.

(M) Depreciation Expense. In its application, Montgomery District #1 proposed a \$6,036 increase to Depreciation Expense. The adjustment is comprised of a \$9,450 increase for depreciation on assets that were capitalized after the end of the test year and a decrease of \$3,414 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>60</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

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<sup>57</sup> Montgomery District #1's Response to Staff's First Request, Item 9c, 9c\_Contract\_for\_UPM\_Software.PDF.

<sup>58</sup> Montgomery District #1's Response to Staff's First Request, Item 9a, 9a\_Excel\_Workpapers.xlsx.

<sup>59</sup> Montgomery District #1's Response to Staff's First Request, Item 1a, 1a\_2022\_General\_Ledger.xlsx.

<sup>60</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment M.

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 Montgomery District #1's proposed \$6,036 increase to Depreciation Expense to reflect the midpoint of the service life ranges set forth in the NARUC Study.

(N) Taxes Other Than Income. In its application, Montgomery District #1 proposed a \$506 increase to Taxes Other Than Income to reflect the tax rate of 7.65 percent to pro forma Salaries and Wages.<sup>61</sup> Commission Staff reviewed Montgomery District #1's calculation of its proposed adjustment and notes that the test year payroll tax amount used in its calculation was \$9,300.<sup>62</sup> In response to Commission Staff's Second Request, Montgomery District #1 provided test year payroll taxes of \$11,287.<sup>63</sup> Using the \$11,287 test year payroll tax Montgomery District #1 provided and the table below, Commission Staff calculated a \$1,986 decrease to Montgomery District #1's adjustment to reflect the increase in Salaries and Wages and correct test year payroll taxes. Commission Staff recommends that the Commission accept Commission Staff's adjustment to Montgomery District #1 proposed \$506 increase to Taxes Other Than Income because it reflects the current wage rates of Montgomery District #1.

Description	Montgomery District	Commission Staff	Difference
Pro Forma Taxable Salaries and Wages	\$ 128,192	\$ 128,192	\$ -
Times: 7.65 Percent FICA Rate	7.65%	7.65%	0.00%
Pro Forma Payroll Taxes	9,807	9,807	-
Less: Test Year Payroll Taxes	(9,300)	(11,287)	1,987
Payroll Tax Adjustment	\$ 506	\$ (1,480)	\$ (1,986)

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

<sup>62</sup> Montgomery District #1's Response to Staff's First Request, Item 9a, 9a\_Excel\_Workpapers.xlsx.

<sup>63</sup> Montgomery District #1's Response to Staff's Second Request, Item 2.

## OVERALL REVENUE REQUIREMENT

The operating ratio methodology is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Montgomery District #1 has one loan from the United States Department of Agriculture (USDA) Rural Development (RD).<sup>64</sup> Commission Staff finds the operating ratio method is appropriate for Montgomery District #1. Commission Staff is of the opinion that an operating ratio of 88 percent will allow Montgomery District #1 sufficient revenues to cover its operating expenses and provide for reasonable equity growth.

By applying the operating ratio method, Commission Staff determined Montgomery District #1's Overall Revenue Requirement to be \$529,816. Commission Staff calculated a revenue increase of \$101,655, or 26.23 percent, is necessary to generate the Overall Revenue Requirement. Commission Staff's calculation of the Overall Revenue Requirement and the Required Revenue Increase using the operating ratio method is shown below.

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<sup>64</sup> Application, Attachment 4, Table B, Debt Service Schedule.

	Montgomery District #1	Commission Staff
Pro Forma Operating Expenses	\$ 467,425	\$ 461,960
Divided by: Operating Ratio	88%	88%
Subtotal	<u>531,165</u>	<u>524,955</u>
Add: Average Annual Interest Expense	4,861	4,861 (1)
Total Revenue Requirement	<u>536,026</u>	<u>529,816</u>
Less: Interest Income	(138)	(138)
Other Operating Revenue	<u>(39,813)</u>	<u>(40,513)</u>
Revenue Required from Rates	496,075	489,165
Less: Normalized Revenues from Water Sales	<u>(387,511)</u>	<u>(387,510)</u>
Required Revenue Increase	<u>\$ 108,564</u>	<u>\$ 101,655</u>
Percentage Increase	<u>28.02%</u>	<u>26.23%</u>

1. Average Annual Interest Expense Payments. In its application, Montgomery District #1 reported a loan from RD.<sup>65</sup> Montgomery District #1 requested recovery of the average interest expense on its indebtedness based on a five-year average of the annual interest expense for the years 2024 through 2028 of \$4,861.<sup>66</sup> Commission Staff recommends the Commission approve Montgomery District #1's average annual interest expense for use in the revenue requirement because Montgomery District #1's last rate adjustment case was 2009-00343<sup>67</sup> and Montgomery District #1 has a relative low average interest expense on its one loan from RD.

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<sup>65</sup> Application, Attachment 4, Table B, Debt Service Schedule.

<sup>66</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment O.

<sup>67</sup> Case No. 2009-00343, *Application of Montgomery County Water District No. 1 for Rate Adjustment* (Ky. PSC May 5, 2023).

Signatures

/s/ Noah Abner

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

/s/ Elizabeth Stefanski

Prepared by: Elizabeth Stefanski  
Rate Design Branch  
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00284 DATED JAN 16 2024

The following rates and charges are prescribed for the customers in the area served by Montgomery County Water District #1. 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

All Meters

First	2,000 Gallons	\$34.33	Minimum Bill
Next	3,000 Gallons	\$11.26	Per Gallon
Next	5,000 Gallons	\$10.24	Per Gallon
Over	10,000 Gallons	\$9.22	Per Gallon

Wholesale Rates	\$5.30	Per Gallon
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Nonrecurring Charges

Late Payment Penalty	10%
Reconnection Charge	\$4.00
Meter Test Charge	\$60.00
Meter Re-read Charge	\$4.00
Returned Check Charge	\$0.00
Connection Charge	\$4.00
3/4 Inch Water Tap On	\$1,762.00
1- Inch Water Tap On	\$2,111.00
All Larger than 1-inch Meters	Actual

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00284 DATED JAN 16 2024

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

	Reconnection Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$18.54 at .50 hours)	\$9.27	
Office Supplies		
Office Labor (\$11.51 at .50 hours)	\$5.75	
Transportation ; 6 miles @ 0.655 per miles	\$3.93	
Total Revised Charge	<u>\$18.95</u>	<u>\$4.00</u>
Current Rate	\$25.00	

	Meter Test Charge Utility Revised Charge	Staff Revised Charge
Test Charge	\$35.00	\$35.00
Field Labor (\$18.54 per hour)	\$18.54	
Office Supplies		
Office Labor (\$26.00 at .50 hours)	\$13.00	
Transportation		
Misc.-shipping	\$25.20	\$25.00
Total Revised Charge	<u>\$91.74</u>	<u>\$60.00</u>
Current Rate	\$40.00	

	Meter Re-read Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$18.54 at .50 hours)	\$9.27	
Office Supplies		
Office Labor (\$11.51 at .50 hours)	\$5.76	
Transportation ; 6 miles @ 0.655 per miles	\$3.93	\$4.00

Total Revised Charge	<u>\$18.96</u>	<u>\$4.00</u>
Current Rate	\$10.00	

	Returned Check Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor		
Office Supplies		
Office Labor (\$11.51 at 1.13 hours)	\$13.00	
Transportation		
Misc.		
Total Revised Charge	<u>\$13.00</u>	<u>\$0.00</u>
Current Rate	\$25.00	

	Connection Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$18.54 at .50 hours)	\$9.27	
Office Supplies		
Office Labor (\$11.51 at .50 hours)	\$5.75	
Transportation ; 6 miles @ 0.655 per miles	\$3.93	\$4.00
Total Revised Charge	<u>\$18.95</u>	<u>\$4.00</u>
Current Rate	\$25.00	

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