

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)	

ORDER

On September 7, 2023,¹ Montgomery County Water District #1 (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 9,² 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. 2022-00242³ that 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. 2009-00343.⁴ Since that matter, Montgomery District #1 has only adjusted

¹ 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.

² The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

³ Case No. 2022-00242, *Electronic Purchased Water Adjustment Filing of Montgomery County Water District No. 1* (Ky. PSC Aug. 30, 2022), Order.

⁴ Case No. 2009-00343, *Application of Montgomery County Water District No. 1 for Rate Adjustment* (Ky. PSC May 7, 2010).

its rates pursuant to purchased water adjustments, or financing approval in conjunction with an application for a Certificate of Public Convenience and Necessity (CPCN).

In its application, Montgomery District #1 requested rates that would increase its annual water sales by \$108,594, or 28.02 percent.⁵

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated September 15, 2023. Montgomery District #1 responded to two information requests from Commission Staff.⁶

On January 16, 2024, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Montgomery District #1's requested rate adjustment. In the Commission Staff's Report, Commission Staff recommended that Montgomery District #1's adjusted test-year operations support a total revenue requirement of \$529,816, and that an annual revenue increase of \$101,655, or 26.23 percent to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.⁷ In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

On January 19, 2024, Montgomery District #1 filed its response to Commission Staff's Report. In its written comments, Montgomery District #1, stated that it disagreed with Commission Staff's adjustment for the removal of certain labor expenses from

⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf.

⁶ Montgomery District #1's Response to Commission Staff'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).

⁷ Commission Staff's Report at 20–21.

nonrecurring charges but did not wish to contest the issue.⁸ Montgomery District #1 stated that it accepted the report's recommended revenue requirement and proposed rates for the purpose of this proceeding.⁹ In its response, Montgomery District #1 waived its right to request an informal conference or hearing.¹⁰ The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."¹¹ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

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

⁸ Montgomery District #1's Response to Staff Report (filed Jan. 19, 2024), Item 1.

⁹ Montgomery District #1's Response to Staff Report, Item 2.

¹⁰ Montgomery District #1's Response to Staff Report, Item 3.

¹¹ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

service to approximately 666 residential customers and 52 commercial customers that reside in Montgomery County, Kentucky.¹²

Montgomery District #1 does not produce any of its own water; rather, it purchases its water from Mount Sterling Water & Sewer.¹³ A review of the Commission's records indicate that Montgomery District #1's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2009-00343.¹⁴

UNACCOUNTED-FOR WATER LOSS

Commission regulation 807 KAR 5:066, Section (6)3, states that "for ratemaking purposes, a utility's water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water consumed by a utility in its own operations." The Commission Staff's Report noted that Montgomery District #1's test-year water loss was 16.7207 percent in its 2022 Annual Report. At a 16.7207 percent water loss, the total annual cost of water loss to Montgomery District #1 is \$29,008, and the annual cost of water loss in excess of 15 percent is \$2,985.

¹² *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.

¹³ 2022 Annual Report at 43.

¹⁴ Case No. 2009-00343 *Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment* (Ky. PSC May 7, 2010).

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

TEST PERIOD

The calendar year ended December 31, 2022, was used as the test year to determine the reasonableness of Montgomery District #1's existing and proposed water service rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Montgomery District #1's pro forma income statement as follows:

	Commission Staff's Report		
	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$389,023	\$39,000	\$428,023
Operating Expenses	437,886	24,074	461,960
Net Utility Operating Income	(48,863)	14,926	(33,937)
Interest Income	138	0	138
Total Utility Operating Income	<u>(\$48,725)</u>	<u>\$14,926</u>	<u>(\$33,799)</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Montgomery District #1 proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the

recommendations contained in the Commission Staff's Report. The Commission has no further modifications. The following is the Commission Staff's complete pro forma:

	Test Year	Proposed Adjustment s	Commission Staff Adjustments	Total Adjustment s	(Ref.)	Pro Forma
Operating Revenues						
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
Other Water Revenues:						
Other Water Revenues	43,813	(4,000)	4,000	-	(D)	
			(3,300)	(3,300)	(E)	40,513
Total Operating Revenues	389,023	38,300	700	39,000		428,023
Operating Expenses						
Operation and Maintenance Expenses						
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
Total Operation and Maintenance Expenses	376,636	22,997	(3,479)	19,518		396,154
Depreciation	49,432	6,036		6,036	(M)	55,468
Taxes Other Than Income	11,818	506	(1,986)	(1,480)	(N)	10,338
Total Operating Expenses	437,886	29,539	(5,465)	24,074		461,960
Net Operating Income	(48,863)	8,761	6,165	14,926		(33,937)
Interest Income	138					138
Income Available to Service Debt	\$ (48,725)	\$ 8,761	\$ 6,165	\$ 14,926		\$ (33,799)

REVENUE REQUIREMENT

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 2022.¹⁵ Montgomery District #1 reported total metered water sales for the test year of \$345,210.¹⁶ Montgomery District #1 provided a billing analysis to calculate a normalized revenue amount of \$333,847, based on the usage during the test year and using the rates authorized in its current tariff.¹⁷

Following a review of the billing analysis and list of water sales adjustments, Commission Staff agreed with Montgomery District #1 that the proposed adjustment met the ratemaking criteria of being known and measurable.¹⁸

The Commission finds that the adjustment and the normalized revenue are known and measurable and that the adjustment to pro forma Operating Revenues is reasonable.

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 2022.¹⁹ During the test year, Montgomery District #1's rates increased for a Purchased Water Adjustment (PWA) that was effective August 1, 2022.²⁰ Additionally,

¹⁵ Application, 5_Current__Billing_Analysis.pdf.

¹⁶ 2022 Annual Report at 39.

¹⁷ 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.

¹⁸ Commission Staff's Report at 8–9.

¹⁹ Application, 5_Current__Billing_Analysis.pdf.

²⁰ Case No. 2022-00242, *Electronic Purchased Water Adjustment Filing of Montgomery County Water District No. 1* (Ky. PSC Aug. 30, 2022), final Order.

Montgomery District #1's rates increased for a PWA effective August 1, 2023.²¹ 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 \$10,486.²² Using the rates approved in the Case No. 2023-00243, Montgomery District #1 calculated an additional increase of \$13,740.²³

Following a review of the Montgomery District #1's PWA adjustment calculations Commission Staff agreed with Montgomery District #1 that the proposed adjustment met the ratemaking criteria of being known and measurable.²⁴

The Commission finds that Montgomery District #1's adjustments are known and measurable because they reflect the changes in rates since the test year and that the adjustments to pro forma Operating Revenues should be accepted.

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 2022.²⁵ In 2023, Montgomery District #1 increased its service rates through a filing for a Certificate of Public Convenience and Necessity (CPCN) to acquire and install water

²¹ Case No. 2023-00243, *Electronic Purchased Water Adjustment Filing of Montgomery County Water District # 1* (Ky. PSC Aug. 17, 2023), final Order.

²² Application, 5_Current__Billing_Analysis.pdf, unnumbered page 2 of 4.

²³ Application, 5_Current__Billing_Analysis.pdf, unnumbered page 4 of 4.

²⁴ Commission Staff's Report at 9.

²⁵ Application, 5_Current__Billing_Analysis.pdf, unnumbered page 3 of 4.

system improvements.²⁶ Using the rates approved in the CPCN case, Montgomery District #1 calculated an increase to Retail Metered Water Sales of \$29,437.

Following a review of the Montgomery District #1's adjustment CPCN calculation Commission Staff agreed with Montgomery District #1 that the proposed adjustment met the ratemaking criteria of being known and measurable.²⁷

The Commission finds that Montgomery District #1's adjustment is known and measurable because it reflects the change in rates since the test year and that the adjustment to pro forma Operating Revenues should be accepted.

Tap Fees. In its application, Montgomery District #1 proposed a \$4,000 decrease to Other Water Revenues to reflect the capitalization of Tap Fee.²⁸ In response to Commission Staff's Second Request, Montgomery District #1 stated that the correct tap-on fee revenue that was collected during the 2022 test year was \$5,000.²⁹

Upon reviewing the 2022 Trial Balance,³⁰ 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.³¹

²⁶ 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.

²⁷ Commission Staff's Report at 10.

²⁸ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

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

³⁰ Montgomery District #1's Response to Staff's First Request, Item 1b_2022_Trial_Balance.pdf.

³¹ Montgomery District #1's Response to Staff's First Request, Item 1b_2022_Trial_Balance.pdf.

The Commission finds that Commission Staff's recommendation to remove Montgomery District #1 proposed \$4,000 decrease is reasonable because it accurately reflects actual capitalized tap on fee revenue during the test year and that Montgomery District #1's proposed \$4,000 decrease to pro forma Operating Revenue should be denied.

Nonrecurring Charges. Following its review, and in the Commission Staff Report, Commission Staff eliminated Field Labor costs from the non-after-hours charges and removed the Office/Clerical Labor costs from the after-hours charges. These revised nonrecurring charges resulted in a decrease to test-year Other Water Revenues and increase to the total revenue requirement of \$3,300.³² After review of Montgomery District #1's 2022 general ledger, Commission Staff noted 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.³³

The Commission finds that the Commission Staff's Report is consistent with recent Commission decisions, that labor expenses resulting from work during normal business hours should not be recovered through nonrecurring charges.³⁴ The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred and recovered in customer

³² Commission Staff's Report at 11.

³³ Montgomery District #1's Response to Staff's First Request, Item 1a, 1a_2022_General_Ledger.xlsx.

³⁴ 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).

rates as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours. Only the marginal cost related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours.

For the reasons discussed above, the estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges as proposed by Commission Staff and a corresponding reduction to Other Operating Revenues should be made to reflect the changes in the nonrecurring charges. Thus, the Commission finds that the revised nonrecurring charges described in Appendix A, and which result in a decrease to test-year Other Water Revenues and an increase to the total revenue requirement of \$3,300, to be reasonable.

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.³⁵

Following review of Montgomery District #1's calculations and general ledger for 2022,³⁶ which showed updated salaries and wages for Montgomery District #1 employees, Commission Staff agreed with Montgomery District #1 that the proposed adjustment met the ratemaking criteria of being known and measurable.³⁷

³⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

³⁶ Montgomery District #1's Response to Staff's First Request, Item 4, 4_Employee_Wages_and_Benefits.xlsx.

³⁷ Commission Staff's Report at 11.

The Commission finds that Montgomery District #1's adjustment is known and measurable because it reflects current staffing levels and that the adjustment to pro forma Operating Expense should be accepted.

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.³⁸

Following review of Montgomery District #1's response to information requests, Commission Staff noted that, to calculate the decreases, Montgomery District #1 used \$4,000 as a basis for its test-year tap-fee revenue.³⁹ In response to Commission Staff's Second Request, Montgomery District #1 stated that the correct tap-on fee revenue that was collected during the 2022 test year was \$5,000.⁴⁰ 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.⁴¹ 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

³⁸ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

³⁹ Montgomery District #1's Response to Staff's First Request, Item 9a, 9a_Excel_Workpapers.xlsx.

⁴⁰ Montgomery District #1's Response to Staff's Second Request, Item 3.

⁴¹ Montgomery District #1's Response to Staff's First Request, Item 1a, 1a_2022_General_Ledger.xlsx.

expense by \$700, using the calculation below, to reflect the correct amount of uncapitalized tap-on material expenses during the test year.⁴²

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>

The Commission finds that Commission Staff's modifications to Montgomery District #1 proposed \$1,200 decrease to Salaries and Wages – Employees and \$2,800 decrease to Materials and Supplies expense reasonable because it accurately reflects actual capitalized tap on fee revenue during the test year and that Montgomery District #1 proposed adjustments as modified by Commission Staff to pro forma Operating Expense should be accepted.

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's) national average for an employer's share of health insurance premiums.⁴³

Following review of Montgomery District #1's response to information requests, Commission Staff noted Montgomery District #1 did not use updated health insurance premiums in its calculation. Commission Staff, used the table below and Montgomery

⁴² Commission Staff's Report at 11–12.

⁴³ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

District #1's updated health insurance monthly premium for 2023,⁴⁴ and 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 BLS's national average for an employer's share of health insurance premiums.⁴⁵

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%	-	-
Total	\$ 685.59		149.57	536.02
Contrib. x No. in Tier			1	<u>536.02</u>
Allowable Annual Premium				6,432
Less Premium Paid in Test Year ()				<u>(7,872)</u>
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%	-	-
Total	\$ 723.17		157.47	565.70
Contrib. x No. in Tier			1	<u>565.70</u>
Allowable Annual Premium				6,788
Less Premium Paid in Test Year ()				<u>(7,872)</u>
Health Insurance Adjustment				<u>\$ (1,084)</u>

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

⁴⁴ Montgomery District #1's Response to Staff's First Request, Item 3, 3_10-20-2023_Invoice_Employee_Insurance_Premiums.PDF.

⁴⁵ Commission Staff's Report at 13-15.

The Commission finds that Commission Staff's adjustment of \$356 to Montgomery District #1's proposed \$1,440 decrease to pro forma Employee Pensions and Benefits expense is reasonable because it reflects Commission precedent on the allowable health insurance premium based on the BLS's national average for an employer's share of health insurance premiums and that the adjustment to pro forma Operating Expense should be accepted.⁴⁶

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.⁴⁷

Following a review of the Montgomery District #1's adjustment, Commission Staff recommended that the Commission accept Montgomery District #1's proposed \$1,747 decrease to Employee Pensions and Benefits expense to reflect the current CERS contribution rate⁴⁸ of 23.34 percent.⁴⁹

The Commission finds that Montgomery District #1's adjustment is known and measurable because it reflects the current CERS contribution rate and that the adjustment to pro forma Operating Expense should be accepted.

⁴⁶ 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).

⁴⁷ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

⁴⁸ Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority. (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

⁴⁹ Commission Staff's Report at 15.

Purchased Water. Montgomery District #1 purchases all its water supply from Mount Sterling Water & Sewer.⁵⁰ In its application, Montgomery District #1 proposed a \$5,703⁵¹ and \$11,823,⁵² or \$17,526 total increase to Purchased Water expense to reflect two separate purchased water adjustment cases since the test year, where Mount Sterling Water & Sewer increased the wholesale water rate.⁵³

Following a review of the Montgomery District #1’s adjustment and using the table below, Commission Staff recommended 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.⁵⁴

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

The Commission finds that Montgomery District #1’s adjustment is known and measurable because it reflects the increase in Purchased Water expense from the two

⁵⁰ 2022 Annual Report at 43.

⁵¹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

⁵² Application, Attachment 4, Schedule of Adjusted Operations, Adjustment J.

⁵³ 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).

⁵⁴ Commission Staff’s Report at 16.

PWAs since the test year and that the adjustment to pro forma Operating Expense should be accepted.

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.⁵⁵

Following a review of the Montgomery District #1’s adjustment and using the table below, Commission Staff recommended 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.⁵⁶

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

The Commission finds that Montgomery District #1’s adjustment is known and measurable because it accurately reflects the Purchased Water expense associated with water loss in excess of 15 percent and that the adjustment to pro forma Operating Expense should be accepted.

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.⁵⁷

⁵⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment K.

⁵⁶ Commission Staff’s Report at 16–17.

⁵⁷ Montgomery District #1’s Response to Staff’s First Request, Item 9b.

Following a review of the Montgomery District #1's adjustment and using the table below, Commission Staff recommended that 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.⁵⁸

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>

The Commission finds that Montgomery District #1's adjustment is known and measurable because it accurately reflects the Purchased Power expense associated with water loss in excess of 15 percent and that the adjustment to pro forma Operating Expense should be approved.

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.⁵⁹

Following a review of the Montgomery District #1's adjustment, Commission Staff noted Montgomery District #1 did not remove the test-year amount of software expense in its adjustment calculation.⁶⁰ Commission Staff reviewed Montgomery District #1's 2022 general ledger and found Montgomery District #1 had \$2,835 in software expense during

⁵⁸ Commission Staff's Report at 17.

⁵⁹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment L.

⁶⁰ Montgomery District #1's Response to Staff's First Request, Item 9a, 9a_Excel_Workpapers.xlsx.

the test year.⁶¹ Commission Staff decreased Montgomery District #1's proposed adjustment by \$2,835.⁶²

The Commission finds that Commission Staff's adjustment of \$2,835 to Montgomery District #1's proposed \$16,224 increase to Miscellaneous Expenses is reasonable because it reflects the new, known contract amount and that the adjustment to pro forma Operating Expense should be accepted.

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).⁶³

In the Commission Staff's Report, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges and agreed with Montgomery District #1's adjustment to decrease pro forma Depreciation Expense by \$3,414.⁶⁴ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study. When no evidence exists to support a specific life that is outside the NARUC ranges, the

⁶¹ Montgomery District #1's Response to Staff's First Request, Item 1a, 1a_2022_General_Ledger.xlsx.

⁶² Commission Staff's Report at 17–18.

⁶³ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment M.

⁶⁴ Commission Staff's Report at 18–19.

Commission has used the midpoint of the NARUC ranges to depreciate the utility plant. The Commission finds that this adjustment is appropriate and should be accepted.

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.⁶⁵

Following a review of the Montgomery District #1’s adjustment, Commission Staff noted that the test year payroll tax amount used in its calculation was \$9,300.⁶⁶ In response to Commission Staff’s Second Request, Montgomery District #1 provided test year payroll taxes of \$11,287.⁶⁷ Using the \$11,287 test year payroll tax Montgomery District #1 provided and the table below, Commission Staff recommended a \$1,986 decrease to Montgomery District #1’s adjustment to reflect the increase in Salaries and Wages and to correct test year payroll taxes.⁶⁸

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	<u>\$ 506</u>	<u>\$ (1,480)</u>	<u>\$ (1,986)</u>

The Commission finds that Commission Staff’s adjustment of \$1,986 to Montgomery District #1’s proposed \$506 increase to Taxes Other Than Income is

⁶⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment N.

⁶⁶ Montgomery District #1’s Response to Staff’s First Request, Item 9a, 9a_Excel_Workpapers.xlsx.

⁶⁷ Montgomery District #1’s Response to Staff’s Second Request, Item 2.

⁶⁸ Commission Staff’s Report at 19.

reasonable because it reflects current wages and the correct test-year amount of payroll taxes and that the adjustment to pro forma Operating Expense should be accepted.

OVERALL REVENUE REQUIREMENTS

The Commission has historically used an Operating Ratio method to calculate the revenue requirement for water districts or associations with little or no outstanding long-term debt. Montgomery District #1 has one loan from the United States Department of Agriculture (USDA) Rural Development (RD).⁶⁹ The Commission finds that the Operating Ratio method is appropriate for Montgomery District #1. An Operating Ratio of 88 percent will allow Montgomery District #1 sufficient revenues to cover its operating expenses and provide for reasonable equity growth. Based upon the Commission’s findings and determinations herein, Montgomery District #1 requires an increase in revenues from water sales of \$101,655, or 26.23 percent above pro forma present water rate revenues as shown below.

Pro Forma Operating Expenses	\$	461,960
Divided by: Operating Ratio		88%
Subtotal		524,955
Add: Average Annual Interest Expense		4,861 (1)
Total Revenue Requirement		529,816
Less: Interest Income		(138)
Other Operating Revenue		(40,513)
Revenue Required from Rates		489,165
Less: Normalized Revenues from Water Sales		(387,510)
Required Revenue Increase	\$	101,655
Percentage Increase		26.23%

⁶⁹ Application, Attachment 4, Table B, Debt Service Schedule.

Average Annual Interest Expense Payments. In its application, Montgomery District #1 reported a loan from RD.⁷⁰ 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 \$4,861.⁷¹

After review of Montgomery District #1's debt service, Commission Staff recommended that 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 2009-00343⁷² and Montgomery District #1 has a relatively low-average interest expense on its one loan from RD.⁷³

The Commission finds that Montgomery District #1's 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 is known and measurable and should be included in the overall revenue requirement formula.

RATE DESIGN

Montgomery District #1 proposed to increase all its monthly retail water service rates evenly across the board by approximately 28 percent in its application. Montgomery District #1 has not performed a COSS. Montgomery District #1 stated that it did not complete a COSS because there have not been any material changes in customer usage

⁷⁰ Application, Attachment 4, Table B, Debt Service Schedule.

⁷¹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment O.

⁷² Case No. 2009-00343, *Application of Montgomery County Water District No. 1 for Rate Adjustment* (Ky. PSC May 7, 2010).

⁷³ Commission Staff's Report at 21.

patterns to warrant a COSS.⁷⁴ The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. In the Commission Staff Report, Commission Staff followed the method previously accepted by Montgomery District #1 and allocated Commission Staff's calculated revenue increase across the board to Montgomery District #1's monthly retail water service rates.

The rates set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from water services to recover the \$489,165 Revenue Required from Water Sales, an approximate 26.23 percent over the test-year water services of \$387,510.

The monthly bill of a typical customer using 4,000 gallons from \$45.10 to \$56.85, an increase of \$11.75, or approximately 26.05 percent.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report are supported by the evidence of record and are reasonable. Applying the Operating Ratio method to Montgomery District #1's pro forma operations results in an Overall Revenue Requirement of \$529,816, a required revenue from water sales of \$489,165, and an increase in revenue from water sales of \$101,655, or 26.23 percent.

⁷⁴ Commission Staff Report at 5.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The water service rates proposed by Montgomery District #1 are denied.

3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Montgomery District #1 on and after the date of service of this Order.

4. The Nonrecurring Charges set forth in Appendix A to this Order are approved for service rendered by Montgomery District #1 on and after the date of service of this Order.

5. Montgomery District #1 shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

6. Within 20 days of the date of service of this Order, Montgomery District #1 shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

7. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



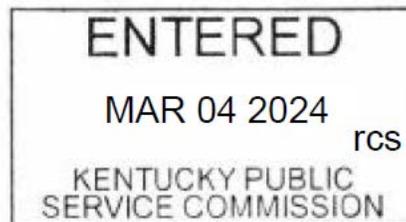
Chairman



Vice Chairman



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00284 DATED MAR 04 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	\$3.93	
6 miles @ 0.655 per miles		
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	\$3.93	\$4.00
6 miles @ 0.655 per miles		

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	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00284 DATED MAR 04 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	\$0.01126	Per Gallon
Next	5,000 Gallons	\$0.01024	Per Gallon
Over	10,000 Gallons	\$0.0922	Per Gallon

Wholesale Rates	\$0.0530	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

*Mark Frost
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