

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE )  
WATER SERVICE RATE OF THE CITY OF WEST ) CASE NO. 2001-00472  
LIBERTY, KENTUCKY )

ORDER

The city of West Liberty, Kentucky ( West Liberty ) proposes to adjust the rate of wholesale water service to Morgan County Water District ( Morgan District ) from \$2.25 per 1,000 gallons to \$2.95 per 1,000 gallons, or 31.1 percent. Based upon its water sales to Morgan District during the test period, this proposed adjustment would generate additional annual revenue of \$29,837. By this Order, the Commission denies the proposed adjustment and authorizes West Liberty to increase its wholesale water service rate to \$2.41 per 1,000 gallons. Based upon test period sales, this adjustment will produce additional annual revenue of \$6,820.

COMMENTARY

West Liberty is a city of the fourth class that operates facilities providing water and sanitary sewer service. KRS 81.010(4). West Liberty provides retail water service to 801 customers<sup>1</sup> and wholesale water service to Morgan District. On January 25, 1991, West Liberty and Morgan District executed a water purchase contract that requires West Liberty to provide Morgan District with a monthly maximum of 1,500,000 gallons of water. On May 15, 1996, they revised this contract to limit Morgan District's

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<sup>1</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 12(c).

monthly purchases to 400,000 gallons of water. On July 3, 1999, the parties entered into a new contract as part of a Memorandum of Understanding with the Kentucky Department of Local Government to finance the construction of an addition to West Liberty's water treatment plant. This water purchase contract, which has a term of 40 years, permits Morgan District to purchase a daily maximum of 400,000 gallons and a monthly maximum of 12,000,000 gallons.<sup>2</sup>

### PROCEDURE

On November 30, 2001, West Liberty filed a proposed revision to its existing rate for wholesale water service to Morgan District.<sup>3</sup> Upon Morgan District's objection to the proposed rate and after finding that further proceedings were necessary to determine the reasonableness of the proposed rate, the Commission suspended the proposed rate until June 1, 2002<sup>4</sup> and established a procedural schedule. The Commission further granted Morgan District leave to intervene in this proceeding.

Following discovery in this proceeding, the Commission held a public hearing on the proposed rate on June 26, 2002. Testifying at this hearing were Carlos Miller, professional engineer, Kenvirons, Inc.; Sally Barker, City Clerk, city of West Liberty, Kentucky; and Franklin Keeton, Water Superintendent, city of West Liberty, Kentucky.

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<sup>2</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 6(a).

<sup>3</sup> KRS 278.190(3) requires that the Commission render a final decision on West Liberty's proposed rate no later than 10 months after the filing of its schedule. This 10-month period ended on September 29, 2002. As September 29, 2002 is a Sunday, KRS 446.030(1)(b) provides that this statutory period ends on September 30, 2002.

<sup>4</sup> On June 1, 2002, West Liberty placed its proposed rate into effect subject to refund.

This case stood submitted for decision on July 11, 2002 when West Liberty submitted written responses to requests for production of documents made at the public hearing.

### TEST PERIOD

West Liberty proposes and the Commission accepts the 12-month period ending June 30, 2000 ( Fiscal Year 2000 ) as the test period for determining the reasonableness of the proposed rate. In using this historic test period, the Commission has given full consideration to appropriate known and measurable changes.

### REVENUES AND EXPENSES

#### Operating Expenses

During Fiscal Year 2000, West Liberty incurred expenses of \$730,547 to operate its water treatment and distribution facilities. Morgan District has not disputed the accuracy or reasonableness of these expenses. We find, however, that several adjustments should be made to these expenses to better reflect pro forma operations. These adjustments, which are set forth below, reduce West Liberty's pro forma operating expenses to \$639,592.

Administrative Expense. West Liberty charged its water operations an Administrative Expense of \$40,141 in Fiscal Year 2000 and \$40,000 in the fiscal year ended June 30, 2001 ("Fiscal Year 2001"). This expense represents the cost of support services, such as office space, the use of photocopying machines, and office support staff, that West Liberty provides its water utility operations. While West Liberty's witnesses were unable to explain how the amount of the charge was derived,<sup>5</sup> they

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<sup>5</sup> Transcript of 6/26/2002 Hearing at 60 - 61; West Liberty's Response to Commission Staff's Second Set of Interrogatories and Request for Production of Document, Item 20(a).

indicated that the maximum level of the charge is \$40,000.<sup>6</sup> Accordingly, the Commission has included Administrative Expense of \$40,000 in pro forma operations.

Automobile Expense. West Liberty incurred automobile expenses of \$10,167 and \$7,607 in Fiscal Year 2000 and Fiscal Year 2001, respectively. West Liberty has acknowledged that the level of this expense in Fiscal Year 2000 is not representative of normal operations and proposed that an average of the 2 years would better reflect ongoing operations.<sup>7</sup> Accordingly, the Commission has reduced the level of automobile expense to \$8,887.<sup>8</sup>

Depreciation Expense. West Liberty reported Depreciation Expense of \$180,545 in Fiscal Year 2000 and \$165,359 in Fiscal Year 2001.<sup>9</sup> It used different methodologies to calculate the level of depreciation expense. For Fiscal Year 2000, it used a percentage allocation method to determine depreciation expense for its water and sewer operations. The following fiscal year it established the depreciation expense for its water operations by identifying each asset belonging to its water operations and determining the depreciation expense associated with that asset.<sup>10</sup> West Liberty concedes that the latter method is more accurate and representative of its current

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<sup>6</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 9(a).

<sup>7</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 4(b).

<sup>8</sup>  $(\$10,167 + \$7,607) \div 2 = \$8,887$ .

<sup>9</sup> West Liberty's Response to the Commission's Order of 12/26/2001, Item 9.

<sup>10</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 3(a).

operations than the former method.<sup>11</sup> Accordingly, the Commission finds that the level of expense incurred in Fiscal Year 2001 should be used for rate-making purposes and that pro forma depreciation expense should be reduced by \$15,186.<sup>12</sup>

The Commission further finds that the level of depreciation should be adjusted to reflect a more reasonable rate of depreciation on West Liberty's 2000 Raw Water Supply Project. West Liberty's depreciation calculations were based in part upon assigning a 20-year service life to the 2000 Raw Water Supply Project and assuming an annual depreciation expense of \$116,588 related to that project.<sup>13</sup> Normally such projects have a 40- to 50-year service life.<sup>14</sup> West Liberty was unable to provide any explanation regarding its use of a shorter service life for this project.<sup>15</sup> Given the lack of any adequate explanation for the use of a 20-year service life, the Commission finds that, for rate-making purposes, a 40-year service life should be used to determine the level of depreciation expense attributable to the 2000 Raw Water Supply Project. This

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<sup>11</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 3(b).

<sup>12</sup> \$180,545 - \$165,359 = \$15,186.

<sup>13</sup> West Liberty's Response to the Commission's Order of 12/26/2001, Item 9.

<sup>14</sup> National Association of Regulatory Utility Commissioners, Depreciation Practices for Small Water Utilities at 11 (Aug. 15, 1979); Transcript of 6/26/2002 Hearing at 35 - 37.

<sup>15</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 5(c).

results in a reduction to West Liberty's depreciation expense of \$58,294<sup>16</sup> and produces a pro forma depreciation expense of \$107,065.<sup>17</sup>

Health and Life Insurance. West Liberty's Health and Life Insurance Expense is \$18,162 in Fiscal Year 2000, but decreases to \$17,040 in the following fiscal year. Because the Commission has adjusted West Liberty's Salaries and Wages Expense to reflect more current conditions as experienced in Fiscal Year 2001, consistency requires the adjustment of other employee-related expenses. Therefore, the Commission has reduced, for rate-making purposes, Health and Life Insurance Expense by \$1,122 to \$17,040.

Materials and Supplies. West Liberty's Materials and Supplies Expense is \$61,680 and \$31,118 for Fiscal Years 2000 and 2001, respectively. West Liberty indicated that the expense level for Fiscal Year 2000 is not reflective of normal operations because "most major expenses were taken in [Fiscal Year 2000]."<sup>18</sup> It stated that an average of the expense level for the 2 fiscal years would be more representative of its current operations.<sup>19</sup> Therefore, the Commission has included Materials and Supplies Expense of \$46,400 in pro forma operations,<sup>20</sup> a reduction of \$15,280.<sup>21</sup>

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<sup>16</sup> Annual Depreciation Expense = \$2,331,752 ÷ 40 years = \$58,294 per year.  
Reduction in Depreciation Level = \$116,588 - \$58,294 = \$58,294.

<sup>17</sup> \$180,545 - (\$15,186 + \$58,294) = \$107,065.

<sup>18</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 2(b).

<sup>19</sup> Id.

<sup>20</sup> \$46,400 = (\$61,680 + \$31,118) ÷ 2.

<sup>21</sup> \$15,280 = \$61,680 - 46,400.

Repairs and Maintenance. West Liberty's Repairs and Maintenance Expense is \$63,953 and \$18,520 for Fiscal Years 2000 and 2001, respectively. West Liberty indicated that the expense level for Fiscal Year 2000 is not reflective of normal operations because "most major repairs were done in [Fiscal Year 2000], leaving [Fiscal Year] 2001 without any major expenses."<sup>22</sup> It stated that an average of the expense level of the 2 fiscal years would be more representative of its current operations.<sup>23</sup> Accordingly, the Commission has included Repairs and Maintenance Expense of \$41,236 in pro forma operations,<sup>24</sup> a reduction of \$22,717.<sup>25</sup>

Retirement. West Liberty's Retirement Expense is \$5,343 and \$9,661 for Fiscal Years 2000 and 2001, respectively. Given that the level for Fiscal Year 2001 is based upon salary and wage levels and that salary and wage level for Fiscal Year 2001 is more representative of West Liberty's current operations, the Commission finds that \$9,661 is the appropriate level of retirement expense to include in pro forma operations.

Salaries and Wages. West Liberty's Salaries and Wages Expense for Fiscal Year 2000 is \$151,555. In Fiscal Year 2001 this expense increased to \$169,408 because of overtime and annual pay increases. The Commission finds that Salaries and Wages Expense of \$169,408 better reflects West Liberty's ongoing operations, and has therefore included this level of expense in pro forma operations.

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<sup>22</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 1(a).

<sup>23</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 1(c).

<sup>24</sup>  $\$41,236 = (\$63,953 + \$18,520) \div 2$ .

<sup>25</sup>  $\$22,717 = \$63,953 - \$41,236$ .

Payroll Taxes. West Liberty's Payroll Taxes Expense for Fiscal Year 2000 and Fiscal Year 2001 is 11,594 and \$12,488, respectively. As we have previously determined that Fiscal Year 2001 more accurately reflects a normal year of West Liberty's operations for salaries and wages and as payroll taxes are based upon salary and wage levels, the Commission finds that the level of Payroll Taxes Expense for pro forma operations should be \$12,488.

Summary. The Commission finds that, based upon West Liberty's adjusted pro forma operations, its total operating expenses for the test period are \$639,592. A summary of these expenses is set forth in Table I.

#### Debt Service Requirements

During the test period, West Liberty had four outstanding long-term debt obligations. As shown in Table II, the debt service requirements associated with these obligations are \$96,521. Using a debt service coverage of 120 percent, which West Liberty proposed, the Commission has determined West Liberty's debt service coverage requirement to be \$115,825.<sup>26</sup>

#### COST ALLOCATION

West Liberty proposes to allocate to Morgan District approximately \$110,508 of its total test year costs. Of this amount, approximately \$74,002 is attributable to operation and maintenance expense on the water treatment and distribution systems, \$29,189 is attributable to depreciation on utility plant, and \$7,317 is attributable to debt service and debt service coverage. These allocations produce a wholesale water service rate of \$2.59 per 1,000 gallons of water.<sup>27</sup> These allocations do not consider the

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<sup>26</sup>  $\$115,825 = \$96,521 \times 1.2.$

<sup>27</sup> Cost-of-Service Study Revised Exhibit 5.



expansion of West Liberty's water treatment plant, which is presently under construction. If those costs are also considered, West Liberty asserts, the wholesale service rate to Morgan District should be \$3.14 per 1,000 gallons.<sup>28</sup>

In support of its proposed allocation, West Liberty presents a detailed cost-of-service study based upon the inch-mile methodology. This methodology determines the cost of jointly used facilities and has previously been accepted as a reliable means of allocating costs.<sup>29</sup> The Commission finds that West Liberty's cost-of-service study, with the exceptions noted below, should be accepted as the basis for establishing the wholesale rate.

Having reviewed West Liberty's cost-of-service study, the Commission finds that, when allocating depreciation expense, West Liberty failed to remove some assets costs, such as meters and distribution main extensions, that are not used to provide wholesale water service. A detailed listing of these items is set forth in Table III. These items represent 23.16 percent of West Liberty's depreciation expense and have been removed from the calculation of depreciation expense to be allocated to Morgan District.

West Liberty also incorrectly allocated 100 percent of travel and training, office supplies, professional fees, and miscellaneous expenses to the administrative and

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<sup>28</sup> Cost-of-Service Study Revised Exhibit 6. We can find no evidence in the record that indicates that the proposed expansion of West Liberty's water treatment plant was completed and in service as of June 26, 2002. Our calculation of West Liberty's wholesale water service rate, therefore, does not take into consideration any depreciation or additional operation and maintenance expenses associated with that expansion.

<sup>29</sup> Kenton County Water District No. 1, Case No. 91-00046 (Ky.PSC Nov. 8, 1991) at 15 16.

general function.<sup>30</sup> The Commission finds that these expenses should be allocated based on the total percentage of all other allocations, less commodity expense. The Commission believes this methodology is more equitable in allocating across the board expenses. Uniform and insurance expense has been allocated in the same manner since these expenses benefit all functions of the utility.

In its cost-of-service study, West Liberty allocated debt service to Morgan District using two different methods. It allocated debt service and debt service coverage based upon Morgan District's contractual maximum of 400,000 gallons per day. It also allocated debt service and coverage using production and transmission factors that were previously determined.<sup>31</sup>

The Commission has allocated debt service to Morgan District based on the contractual maximum of 400,000 gallons per day. Morgan District purchases approximately 17 percent of the total water that West Liberty sells. While the current water purchase contract allows Morgan District to purchase 400,000 gallons per day, Morgan District purchased an average of 116,778 gallons of water daily during the test period. Based upon its annual usage projections, Morgan District will purchase 193,198 gallons of water daily in 2005.<sup>32</sup> While Morgan District clearly does not use all the treatment capacity allocated to it and is not expected to reach such usage levels in the near future, West Liberty must reserve and maintain this capacity for Morgan District's usage.

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<sup>30</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 7.

<sup>31</sup> Cost of Service Study at Revised Exhibits 5 - 8.

<sup>32</sup> Morgan District's Response to West Liberty's Interrogatories and Requests for Production of Documents, Item 19.

The Commission has also made adjustments to the allocation of chemical expenses. West Liberty allocated chemical expense based on the water production allocation factor.<sup>33</sup> Because this expense varies directly with the amount of water treated, we have allocated this expense based on the percentage of water that Morgan District purchases. We find that this method of allocation more accurately allocates the expense between the two utilities.

The Commission's methodology for determining West Liberty's cost of serving Morgan District is set forth in Tables IV through VIII of this Order. Based upon this methodology, we find that the appropriate rate for West Liberty's wholesale service to Morgan District is \$2.41 per 1,000 gallons.

#### SUMMARY

After reviewing the evidence of the record and being otherwise sufficiently advised, the Commission finds that:

1. Based upon its adjusted operations for Fiscal Year 2000, West Liberty requires \$639,592 annually to meet its reasonable operating expenses, including depreciation, to provide water service to all customers.
2. Based upon its adjusted operations for Fiscal Year 2000, West Liberty requires \$115,825 annually to meet its debt service obligations and to provide for adequate debt service coverage.
3. Based upon West Liberty's adjusted test period operations, approximately \$80,419 of West Liberty's operating expenses is incurred to provide water service to Morgan District.

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<sup>33</sup> West Liberty's Response to Commission Staff's First Set of Interrogatories and Request for Production of Document, Item 7.

4. Based upon West Liberty's adjusted test period operations, approximately \$22,390 of West Liberty's debt service requirement is related to providing service to Morgan District.

5. West Liberty's total annual revenue requirement to provide water service to Morgan District is \$102,809.

6. Based upon West Liberty's sales to Morgan District during Fiscal Year 2000, a wholesale rate of \$2.41 per 1,000 gallons of water will produce annual revenue sufficient to meet West Liberty's cost of serving Morgan District.

7. The rate proposed by West Liberty is unjust and unreasonable and should be denied.

IT IS THEREFORE ORDERED that:

1. The rate of \$2.41 per 1,000 gallons of water is approved for water service rendered by West Liberty to Morgan District on and after June 1, 2002.

2. The rate proposed by West Liberty is denied.

3. Within 30 days of the date of this Order, West Liberty shall file revised tariff sheets reflecting the rate approved herein.

4. Within 30 days of the date of this Order, West Liberty shall refund to Morgan District the difference between the amount charged at the proposed rate for service between June 1, 2002 and the date of this Order and the rate approved herein.

Done at Frankfort, Kentucky, this 30th day of September, 2002.

By the Commission

ATTEST:

  
Executive Director

**TABLE I**  
**ADJUSTED TEST YEAR**  
**OPERATING EXPENSES**

Expense	Actual	Adjustment	Adjusted pro forma
Administrative	\$40,141	(\$141)	\$40,000
Automobile	\$10,167	(\$1,280)	\$8,887
Bad Debts	\$606		\$606
Chemicals	\$75,733		\$75,733
Depreciation/Amortization	\$180,545	(\$15,186) (\$58,294)	\$107,065
Dues/Subscriptions	\$775		\$775
Health & Life Insurance	\$18,162	(\$1,122)	\$17,040
Insurance	\$11,067		\$11,067
Janitorial Supplies	\$1,482		\$1,482
Materials/Supplies	\$61,680	(\$15,280)	\$46,400
Miscellaneous	\$2,635		\$2,635
Office Supplies	\$4,292		\$4,292
Postage	\$1,283		\$1,283
Professional fees	\$11,108		\$11,108
Repairs/Maintenance	\$63,953	(\$22,717)	\$41,236
Retirement	\$5,343	\$4,318	\$9,661
Salaries/Wages	\$151,555	\$17,853	\$169,408
Payroll Taxes	\$11,594	\$894	\$12,488
Telephone/Utilities	\$53,085		\$53,085
Testing	\$12,232		\$12,232
Travel and Training	\$1,403		\$1,403
Uniform allowance	\$6,197		\$6,197
Workers Compensation	\$5,508		\$5,508
<b>Total Operating Expenses</b>	<b>\$730,547</b>	<b>(\$90,955)</b>	<b>\$639,592</b>

**TABLE II**  
**DEBT SERVICE**

Year Ending	Principal	Interest	Total Payment	Average
<b><u>1973 Series Bond</u></b>				
6/30/02	\$15,000	\$7,176	\$22,176	
6/30/03	\$15,000	\$6,220	\$21,220	
6/30/04	\$20,000	\$5,117	\$25,117	
Average Payment				\$22,838
<b><u>1998 Series Bond</u></b>				
6/30/02	0	\$20,205	\$20,205	
6/30/03	\$4,000	\$20,118	\$24,118	
6/30/04	\$4,500	\$19,924	\$24,424	
Average Payment				\$22,916
<b><u>2002 Series A &amp; B</u></b>				
<b><u>\$1,000,000 @ 3.25%</u></b>				
6/30/02	\$32,500	0	\$32,500	
6/30/03	\$32,500	0	\$32,500	
6/30/04	\$32,500	\$14,000	\$46,500	
Average Payment				\$37,167
<b><u>2002 Series A &amp; B</u></b>				
<b><u>\$280,000 @ 4.5%</u></b>				
6/30/02	\$12,600	0	\$12,600	
6/30/03	\$12,600	0	\$12,600	
6/30/04	\$12,600	\$3,000	\$15,600	
Average Payment				\$13,600
Total Debt Service Payment				\$96,521

Source: West Liberty's Response to Hearing Requests, Item 7.

**TABLE III**

**DEPRECIATION EXPENSE IMPROPERLY  
ALLOCATED TO MORGAN DISTRICT**

<b>Date Acquired</b>	<b>Description</b>	<b>Depreciation Expense FY 2001</b>
10/1989	Hutchinson Road Water Project	\$3,990.33
08/2000	Hutchinson Road Water Project	305.50
01/1984	Meters	505.10
01/1985	Meters	402.10
01/1985	Waterline Extension	10,021.74
07/1992	Meters	18.60
10/1992	Meters	8.25
02/1993	Meters	27.60
04/1993	Meters	11.55
11/1993	Waterline to Prison	2,298.84
06/1997	Meters	180.80
07/1997	Meters	71.80
07/1998	Meters	332.50
07/1998	Meters	332.50
07/1998	Meters	332.50
11/1992	Meters	16.50
01/1965	Waterline Extension	1,335.54
01/1973	Waterline Extension	192
01/1965	Installations	400
01/1974	Meters	13.44
01/1974	Water and Sewer Additions	137.08
01/1974	Lines	92.50
01/1975	Lines	3,238.86
01/1975	Meters	40.22
01/1975	Lines	126.70
01/1976	Meters	31.48
01/1976	Lines	138.32
01/1977	Meters	45.52
01/1977	Lines	139.84
01/1981	Meters	69.60
01/1982	Meters	116.60
	<b>Total</b>	<b>\$24,973.91</b>

Source: West Liberty's Response to PSC Order of 12/26/2001, Item 9.



**TABLE IV**

**WATER PRODUCED AND SOLD**

Sales to General Customers	207,973,000	
Sales to Morgan County	42,624,000	
Total Sales	250,597,000	
Treatment Plant Use	25,050,000	
Unaccounted For Water	<u>13,745,204</u>	
Total Produced	289,392,204	
Treatment Plant Use	<u>25,050,000</u>	8.66%
Total Produced	289,392,204	4.75%
Unaccounted for Water	<u>13,745,204</u>	
Total Produced	<u><u>289,392,204</u></u>	
Total Plant Use and Unaccounted		13.41%

Source: Cost of Service Study Revised Exhibit 1

**TABLE V**  
**INCH MILE DATA**

Size	Total West Liberty Lines		Jointly Used Lines	
	Miles	Inch-Miles	Miles	Inch-Miles
2	1.40	2.80		
3	0.37	1.11		
4	1.33	5.32		
6	9.11	54.66	1.34	8.04
8	5.27	42.16	2.54	20.32
10	4.73	47.30	4.49	44.9
12	17.82	213.84	17.82	213.84
Total Inch Miles		367.19		287.10

Source: Cost of Service Study Revised Exhibit 2

**TABLE VI**  
**WHOLESALE ALLOCATION FACTORS**

			Multiplier
Line Loss Percentage	4.75%		
Plant Use	<u>8.66%</u>		
Total Plant Use & Line Use	13.41%		
West Liberty Production Multiplier	$1 / 1 - .1341$	=	1.1549
Wholesale Inch Mile Ratio	$287 / 367$	=	0.7820
Wholesale Share of Line Loss	$0.7820 \times 0.0475$	=	0.0371
Joint Share of Plant Use & Line Loss	$0.0371 + 0.0866$	=	0.1237
Production Multiplier	$1 / 1 - .1237$	=	1.1412
Production Allocation Factor	$\frac{42,624}{250,597} \times \frac{1.1412}{1.1549}$		0.1681
Pipeline Transmission Factor	$\frac{42,624}{250,597} \times 0.7820$		0.1330
Commodity Factor	$42,624 / 250,597$		0.1701

**TABLE VII**

**ALLOCATION OF OPERATION AND MAINTENANCE EXPENSES**

Expense	Total	Commodity	Supply and Treatment	Transmission and Distribution	Customer	Administrative and General
Salaries	\$169,408		\$101,645	\$25,411	\$25,411	\$16,941
Payroll Taxes	12,488		7,493	1,873	1,873	1,249
Health and Life Insurance	17,040		10,224	2,556	2,556	1,704
Administrative	40,000		12,000	8,000	15,000	5,000
Retirement	9,661		5,797	1,449	1,449	966
Workman s Comp	5,508		3,305	826	826	551
Automobile	8,887			1,333	5,000	2,554
Bad Debts	606				606	
Chemicals	75,733	75,733				
Janitorial Supplies	1,482					1,482
Materials and Supplies	46,400		11,136	23,200	12,064	
Postage	1,283				1,283	
Repairs	41,236		12,371	28,865		
Utilities	53,085		47,777			5,309
Testing	12,232		4,404	7,828		
Subtotal	\$495,049	\$75,733	\$216,152	\$101,341	\$66,068	\$35,756
Percentages - less commodity	419,316		0.5155	0.2417	0.1576	0.0853
Dues/Subscriptions	775		400	187	122	66
Insurance	11,067		5,705	2,675	1,744	944
Miscellaneous	2,635		1,358	637	415	225
Professional Fees	11,108		5,865	2,495	1,994	754
Office Supplies	4,292		2,213	1,037	676	366
Travel and Training	1,403		732	339	221	120
Uniform Allowance	6,197		3,195	1,498	977	529
Total O&M Expense	532,526	75,733	235,611	110,209	72,217	38,760

**TABLE VIII**  
**WHOLESALE RATE**

Expense	Total	Allocation Factor	Amount to Morgan District	Rate to Morgan District
Commodity	\$ 75,733	0.1701	\$ 12,882	0.3022
Supply and Treatment	235,611	0.1681	39,606	0.9292
Transmission and Distribution	110,209	0.1330	14,658	0.3439
Customer	72,217	0	-	
Administrative and General	38,760	0		
Depreciation				
Treatment	67,236	0.1681	11,302	0.2652
Distribution	14,856	0.1330	1,976	0.0464
Meters and Lines not Allocated to Wholesale	24,973	0		
Debt Service				
Treatment	104,243	0.2000	20,849	0.4891
Distribution	11,583	0.1330	1,541	0.0362
<b>Total Revenue Requirement</b>	<b>\$ 755,417</b>		<b>\$ 102,809</b>	<b>\$ 2.41</b>