

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH)	CASE NO.
MANCHESTER WATER ASSOCIATION, INC.)	2023-00183
FOR AN ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On July 6, 2023, North Manchester Water Association, Inc. (North Manchester Water) filed¹ 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 North Manchester Water used the calendar year ended December 31, 2022, as the basis for its application.³

In its application, North Manchester Water requested rates that would increase its annual water sale revenues by \$271,429, or a 26.93 percent increase to pro forma rate water sale revenues.⁴

¹ North Manchester Water tendered its application on June 1, 2023. By letter dated June 12, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on July 6, 2023.

² Commission regulation 807 KAR 5:076, Section 9, states that 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 Application, Item 9.

⁴ North Manchester Water's Response to Deficiency Letter (filed June 12, 2024), Revenue Requirement Calculation.

The application was filed pursuant to the Commission's Order in Case No. 2021-00339,⁵ which required North Manchester Water to file an application for an adjustment to its base rates by June 1, 2023. North Manchester Water's last base rate increase, pursuant to the alternative rate filing procedure, was in Case No. 2011-00441.⁶ North Manchester Water filed an application for an adjustment to its base rates in Case No. 2019-00052;⁷ however, the case was dismissed without prejudice. In the final Order in Case No. 2019-00052, the Commission stated, "The 2017 financial data is incomplete and cannot be reasonably relied upon and should not be accepted."⁸

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated July 31, 2023, which was subsequently amended by Orders entered on September 12, 2023; October 6, 2023; December 13, 2023; and January 5, 2024.⁹ North Manchester Water responded to three requests for information.¹⁰

⁵ Case No. 2021-00339, *Electronic Alleged Failure of North Manchester Water Association, Inc., its Officers, Steve Davis, Carl Gregory Hoskins, Bobby Wolfe, Henry Smith, and Carl David Crawford to Comply with KRS 278.140, KRS 278.230, 807 KAR 5:006, Sec. 4, And KRS 278.990* (Ky. PSC Mar. 7, 2023), final Order. North Manchester Water was ordered to file a rate case by June 1, 2023.

⁶ Case No. 2011-00441, *Application of North Manchester Water Association for Approval of Proposed Increase in Rates for Water Service* (Ky. PSC Mar. 1, 2012), final Order.

⁷ Case No. 2019-00052, *Application of North Manchester Water Association for an Alternative Rate Adjustment* (Ky. PSC July 31, 2019).

⁸ Case No. 2019-00052, *Application of North Manchester Water Association for an Alternative Rate Adjustment* (Ky. PSC July 31, 2019), final Order at 3, ordering paragraph 1.

⁹ See Order (Ky. PSC July 31, 2023); Order (Ky. PSC Sept 12, 2023); Order (Ky. PSC Oct. 6, 2023); Order (Ky. PSC Dec. 13, 2023); and Order (Ky. PSC Jan. 5, 2024).

¹⁰ North Manchester Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Sept. 15, 2023); North Manchester Water's Redacted Response to Staff's First Request (filed Sept. 20, 2023); North Manchester Water's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Oct. 30, 2023); North Manchester Water's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Nov. 29, 2023).

Additionally, Commission Staff conducted an informal conference on October 3, 2023,¹¹ and a field review on November 8, 2023.¹²

Commission Staff's Report was filed on January 11, 2024,¹³ summarizing its findings and recommendations regarding North Manchester Water's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that North Manchester Water's adjusted test-year operations support a total revenue requirement of \$1,066,399, and that an annual revenue increase of \$58,507, or 5.81 percent to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement. In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

North Manchester Water filed its response to Commission Staff's Report on January 24, 2024.¹⁴ In its written comments, North Manchester Water stated that it disagreed with many recommendations contained in Commission Staff's Report but accepted the proposed rates as well as the Water Loss Reduction Surcharge.¹⁵ North Manchester Water did not articulate any specific items that it disagreed with in Commission Staff's Report. Additionally, North Manchester Water submitted that no

¹¹ Notice of Informal Conference (Ky. PSC Sept. 25, 2023); 20231010_PSC Letter Filing IC Memo into the Record.pdf (filed Oct. 10, 2023).

¹² Order (Ky. PSC Oct. 6, 2023); 20231121_PSC Letter Filing Field Review Memo into the Record.pdf (filed Nov. 21, 2023).

¹³ Commission Staff's Report (filed Jan. 11, 2024); 20240111_STAFF_REPORT.pdf.

¹⁴ North Manchester Water's Response to Commission Staff Report and Notice of Implementation of Rates (filed Jan. 24, 2024); NMWA_Reponse_to_Staff_Report.pdf

¹⁵ North Manchester Water's Response to Commission Staff Report and Notice of Implementation of Rates, at 1.

hearing on the matter was necessary.¹⁶ On January 24, 2024, North Manchester Water also gave notice of its intent to implement the rates recommended in the Commission Staff Report.¹⁷ On January 31, 2024, the Commission issued an Order finding North Manchester Water's Notice deficient for failure to implement the rates the public received notice of in the application.¹⁸ North Manchester has not implemented rates at this time. Upon acceptance of the water loss surcharge recommended in the Commission Staff Report, the Commission ordered North Manchester Water to re-notice its rates.¹⁹ 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."²⁰ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

¹⁶ North Manchester Water's Response to Commission Staff Report and Notice of Implementation of Rates, at 1.

¹⁷ North Manchester Water's Response to Commission Staff Report and Notice of Implementation of Rates.

¹⁸ Order (Ky. PSC Jan. 31, 2024).

¹⁹ Order (Ky. PSC Apr. 15, 2024). This Commission subsequently issued a *nunc pro tunc* Order on Apr. 19, 2024 deleting a portion of the language in the required renounce.

²⁰ *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).

BACKGROUND

North Manchester Water is a water utility organized pursuant to KRS Chapter 273 that owns and operates a distribution system through which it provides retail water service to approximately 1,942 residential customers, 16 commercial customers, 2 industrial customers, and 8 public authorities that reside in Clay County, Kentucky.²¹

UNACCOUNTED-FOR WATER LOSS

The Commission notes that, in its 2022 Annual Report, North Manchester Water reported a water loss of 33.3724 percent.²² 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 table below shows that the 2022 total annual cost of water loss to North Manchester Water is \$155,593, while the annual cost of water loss in excess of 15 percent is \$85,658. The gallons of water loss in excess of 15 percent is 38.834 million. The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission views excessive water loss as a potential warning sign of problems with the financial health and operational well-being of water utilities.²³

²¹ *Annual Report of North Manchester Water to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

²² 2022 Annual Report at 57.

²³ Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (Ky. PSC Mar. 12, 2019), Order.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 422,744	\$ 43,487	\$ 466,231
Water Loss Percent	33.3724%	33.3724%	
Total Water Loss	<u>\$ 141,080</u>	<u>\$ 14,513</u>	<u>\$ 155,593</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 422,744	\$ 43,487	\$ 466,231
Water Loss in Excess of 15%	18.3724%	18.3724%	
Disallowed Water Loss	<u>\$ 77,668</u>	<u>\$ 7,990</u>	<u>\$ 85,658</u>

TEST PERIOD

The calendar year ending on December 31, 2022, was used as the test year to determine the reasonableness of North Manchester Water's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes North Manchester Water's pro forma income statement as follows:

	Commission Staff's Report		
	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$1,007,892	\$0	\$1,007,892
Operating Expenses	1,069,406	(161,108)	908,298
Total Utility Operating Income	<u>(\$61,514)</u>	<u>\$161,108</u>	<u>\$99,594</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

North Manchester Water 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	North Manchester Water Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref.)	Pro Forma
Operating Revenues						
Sales of Water	\$ 1,007,846			0		\$ 1,007,846
Other Water Revenues	46			0		46
Total Operating Revenues	1,007,892	0	0	0		1,007,892
Operating Expenses						
Operation and Maintenance Expenses						
Salaries and Wages - Employees	201,412	6,042	(40,771)	(34,729)	(A)	166,683
Employee Pensions and Benefits	30,655	920	(5,076)	(4,156)	(B)	
			(5,830)	(5,830)	(B)	20,669
Purchased Water	427,607	12,828	(17,691)	(4,863)	(C)	
			(77,668)	(77,668)	(C)	345,076
Purchased Power for Pumping	43,851	1,316	(1,680)	(364)	(D)	
			(7,990)	(7,990)	(D)	35,497
Materials and Supplies	127,280	1,406	(1,406)	0	(E)	127,280
Contractual Services	38,231	1,537	(1,537)	0	(F)	38,231
Transportation Expense	27,426	87		87	(G)	27,513
Insurance	22,167	665	2,307	2,972	(H)	25,139
Miscellaneous Expense	15,742	1,618	(1,618)	0	(I)	15,742
Total Operation and Maintenance Expenses	934,371	26,419	(158,960)	(132,541)		801,830
Taxes Other Than Income - FICA	23,781			0	(J)	23,781
Depreciation	111,254	0	(10,203)	(10,203)	(K)	
			(18,364)	(18,364)	(K)	82,687
Total Operating Expenses	1,069,406	26,419	(187,527)	(161,108)		908,298
Income Available to Service Debt	\$ (61,514)	\$ (26,419)	\$ 187,527	\$ 161,108		\$ 99,594

REVENUE REQUIREMENTS

Nonrecurring Charges. Following its review, and in the Commission Staff's Report, Commission Staff eliminated all labor costs from charges occurring during normal working hours and also eliminated Office/Clerical labor costs from any charges occurring after working hours. As explained in the Commission Staff's Report, the nonrecurring charges were adjusted by removing the \$18.45 per hour Field Labor Costs and the \$16.62 per hour Office/Clerical Labor Costs from those charges that occur during normal business

hours.²⁴ With information provided by North Manchester Water, Commission Staff adjusted the Returned Check Charge to zero because North Manchester Water's bank does not charge a fee for returned checks.²⁵ The calculation of these adjustments to Nonrecurring Charges are included in a table provided in Appendix A.

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.²⁶ 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 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 Commission finds that the estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges as proposed by Commission Staff. No adjustments were

²⁴ Commission Staff's Report at 11–12.

²⁵ Commission Staff's Report at 11–12.

²⁶ 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).

made in Other Operating Revenue for the changes to nonrecurring charges, due to the revenue accounting issues discussed in the Commission Staff's Report.²⁷

Salaries and Wages - Employees. In its application, North Manchester Water proposed an increase of \$6,042, or 3.0 percent, but did not provide a reason for the adjustment or evidence of a known and measurable change to the test-period expenses.²⁸ North Manchester Water was granted confidential treatment of employee wage information in an Order dated September 9, 2023.²⁹

Commission Staff, in its Report, reviewed the information provided by North Manchester Water and calculated a decrease of \$34,729 from test-year salaries as shown below.³⁰ Commission Staff calculations are based on the staffing levels and hours provided by North Manchester, which reflects a decrease from the test year, and current wage rates.³¹

<u>Description</u>	<u>Amount</u>
Test Year	\$ 201,412
Adjustment	(34,729)
Pro Forma	<u>\$ 166,683</u>

The Commission finds Commission Staff's adjustment reasonable because it reflects information provided in North Manchester Water's application and responses to

²⁷ Commission Staff's Report at 6.

²⁸ North Manchester Water's Response to Deficiency Letter, Schedule of Adjusted Operations, Adjustment A.

²⁹ Order (Ky. PSC Sept. 9, 2023).

³⁰ Commission Staff's Report at 14–15.

³¹ North Manchester Water's Response to Commission Staff's Third Request, Item 3.

information requests and the Commission approves the adjustment to pro forma Operating Expense.

Employee Pensions and Benefits. In its application, North Manchester Water proposed an increase of \$920, or 3.0 percent, but did not provide a reason for the adjustment or evidence of a known and measurable change to the test period expenses.³² North Manchester Water pays 100 percent of single medical insurance coverage for full time employees.³³

Commission Staff reviewed the information provided by North Manchester Water and calculated a cost decrease of \$4,156 based on current cost information provided by North Manchester Water.³⁴ Additionally, Commission Staff calculated a reduction of \$5,830 to reflect allowable health insurance premium based on the Bureau of Labor Statistics (BLS).³⁵ A summary of the amounts is shown below.

Description	Amount
Monthly Single Premium Coverage	\$ 2,208.29
	12
Annual (rounded to zero)	\$ 26,499
Test Year	(30,655)
Increase / (Decrease)	<u>\$ (4,156)</u>
BLS Employee Contribution Rate	<u>22%</u>
Employee Contribution Dollars	<u>\$ (5,830)</u>

³² North Manchester Water’s Response to Deficiency Letter, Schedule of Adjusted Operations, Adjustment B.

³³ North Manchester Water’s Response to Commission Staff’s First Request for Information, Exhibit 4.

³⁴ Commission Staff’s Report at 15-16.

³⁵ See Case No. 2016-00434, *Application of Shelby Energy Cooperative, Inc. for an Increase in Its Retail Rates* (Ky. PSC July 31, 2017), final Order at 6–7. See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 2, 2017) at 9–10.

The Commission finds Commission Staff's adjustments are reasonable because they reflect the information provided in North Manchester Water's application and responses to information requests as well as Commission precedent, the Commission approves the adjustment to pro forma Operating Expense.

Purchased Water. In its application, North Manchester Water proposed an increase of \$12,828, or 3.0 percent, but did not provide a reason for the adjustment or evidence of a known and measurable change to the test period expenses.³⁶

Commission Staff, in its Report, calculated the cost of test-year gallons purchased which resulted in a decrease of \$4,863 as shown below.³⁷

Description	Amount
Gallons	211,371,900
Current Purchase Rate	\$ 2.00
Pro Forma Cost	\$ 422,744
Test Year Purchase Cost ()	(427,607)
Increase in Purchase Cost	<u>\$ (4,863)</u>

The Commission finds Commission Staff's adjustments reasonable because it reflects the current purchase water rate and test year gallons, and the Commission approves the adjustment to pro forma Operating Expense.

Additionally, Commission Staff reduced purchased water expense by \$77,668 for ratemaking purposes for water loss in excess of 15 percent as shown below.³⁸

³⁶ North Manchester Water's Response to Deficiency Letter, Schedule of Adjusted Operations, Adjustment C.

³⁷ Commission Staff's Report at 16.

³⁸ Commission Staff's Report at 16.

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 422,744	\$ 43,487	\$ 466,231
Water Loss in Excess of 15%	18.3724%	18.3724%	
Disallowed Water Loss	\$ 77,668	\$ 7,990	\$ 85,658

The Commission finds Commission Staff's adjustments reasonable because it accurately reflects the Purchased Water expense associated with water loss in excess of 15 percent and the Commission approves the adjustment to pro forma Operating Expense.

Purchased Power for Pumping. In its application, North Manchester Water proposed an increase of \$1,316, or 3.0 percent, but did not provide a reason for the adjustment or evidence of a known and measurable change to the test period expenses.³⁹

Commission Staff reviewed the postings to the general ledger and determined that charges were recorded to Delta Natural Gas Company and Woods Sanitation that are not related to power for pumping, resulting in a net cost reduction of \$364 as shown below.⁴⁰

Description	Amount	Pro Forma
Delta Natural Gas Company	\$ 2,359.98	
Jackson Energy	8,670.64	(1)
Kentucky Utilities	34,816.83	(1)
Woods Sanitation	202.00	
General Ledger Components	<u>46,049.45</u>	
(1) Pro Forma Power for Pumping	\$ 43,487.00	
Reported Test Year Power for Pumping	(43,851.00)	
Adjustment to Test Year	<u>\$ (364.00)</u>	

³⁹ North Manchester Water's Response to Deficiency Letter, Schedule of Adjusted Operations, Adjustment D.

⁴⁰ Commission Staff's Report at 17.

The Commission finds Commission Staff's adjustments reasonable because it reflects the actual test-year Purchased Power expense, and the Commission approves the adjustment to pro forma Operating Expense.

Furthermore, Commission Staff reduced Purchased Power expense by \$7,990 for ratemaking purposes for water loss in excess of 15 percent as shown in the previous table that describes Purchased Water adjustments for excess water loss.⁴¹

The Commission finds Commission Staff's adjustments reasonable because it accurately reflects the Purchased Power expense associated with water loss in excess of 15 percent and the Commission approves the adjustment to pro forma Operating Expense.

Materials and Supplies. In its application, North Manchester Water proposed an increase of \$1,406, or 1.1 percent, but did not provide a reason for the adjustment or evidence of a known and measurable change to the test period expenses.⁴²

Commission Staff stated in its Staff Report that the test year amount for materials and supplies could not be reconciled to the general ledger based on the method of accounting of expenses.⁴³ Commission Staff did not propose an adjustment based on the concerns with the general ledger. It further recommended that the Commission not accept North Manchester Water's proposed adjustment because it is not known and measurable.⁴⁴

⁴¹ Commission Staff's Report at 17.

⁴² North Manchester Water's Response to Deficiency Letter, Schedule of Adjusted Operations, Adjustment E.

⁴³ Commission Staff's Report at 17–18.

⁴⁴ Commission Staff's Report at 17–18.

The Commission finds that North Manchester Water's proposed adjustment is denied because North Manchester did not provide a reason for the proposed increase of \$1,406 to Materials and Supplies, and it is not known and measurable.

Contractual Services. In its application, North Manchester Water proposed an increase of \$1,537, or 4 percent but did not provide a reason for the adjustment or evidence of a known and measurable change to the test period expenses.⁴⁵

Commission Staff recommended the Commission not accept the proposed adjustment because it is not known and measurable.⁴⁶

The Commission finds that North Manchester Water's proposed adjustment is denied because North Manchester did not provide a reason for the proposed increase of \$1,537 to Contractual Services and it is not known and measurable.

Transportation Expense. In its application, North Manchester Water proposed an increase of \$87, or 0.3 percent but did not provide a reason for the adjustment or evidence of a known and measurable change to the test period expenses.⁴⁷

Commission Staff recommended the Commission accept the proposed adjustment because the adjustment is not material.⁴⁸

The Commission finds that North Manchester Water's proposed adjustment is accepted because \$87 it is not a material change having an insignificant effect on the

⁴⁵ North Manchester Water's Response to Deficiency Letter, Schedule of Adjusted Operations, Adjustment F.

⁴⁶ Commission Staff's Report at 18.

⁴⁷ North Manchester Water's Response to Deficiency Letter, Schedule of Adjusted Operations, Adjustment G.

⁴⁸ Commission Staff's Report at 18.

overall revenue requirement,⁴⁹ and the Commission approves the adjustment to pro forma Operating Expense.

Insurance. In its application, North Manchester Water proposed an increase of \$665, or 3 percent, but did not provide a reason for the adjustment or evidence of a known and measurable change to the test-period expenses.⁵⁰

Commission Staff reviewed insurance invoices provided by North Manchester Water in its responses to Staff’s Third Request and calculated an increase of \$2,972 as shown below.⁵¹

Description	Amount
Liability	6,753.78
Property	3,233.04
Workers' Comp	2,582.59
	12,569.41
Semi-Annual x two	2
Annual	\$ 25,139
Test Year ()	\$ (22,167)
Increase / (Decrease)	\$ 2,972

The Commission finds Commission Staff’s adjustment reasonable because it reflects information provided in North Manchester Water’s application and responses to information requests, and the Commission approves the adjustment to pro forma Operating Expense.

Miscellaneous Expense. In its application, North Manchester Water proposed an increase of \$1,618, or 10.3 percent of the test-year amount of \$15,742, but did not provide

⁴⁹ The proposed adjustment is 0.0096% of total pro forma operating expense.

⁵⁰ North Manchester Water’s Response to Deficiency Letter, Schedule of Adjusted Operations, Adjustment H.

⁵¹ Commission Staff’s Report at 18–19.

a reason for the adjustment or evidence of a known and measurable change to the test period expenses.⁵²

Commission Staff recommended that the Commission not accept the proposed adjustment because it is not known and measurable.⁵³

The Commission finds that North Manchester Water's proposed adjustment is denied because North Manchester Water did not provide a reason for the proposed increase of \$1,618 to Miscellaneous Expense, and it is not known and measurable.

Taxes Other Than Income. In its application, North Manchester Water did not propose any adjustments to Taxes Other Than Income.

Commission Staff, in its Report, stated the test-year amount of \$23,781 could not be reconciled to North Manchester Water's general ledger. Commission Staff calculated FICA taxes of \$12,751 but could not reasonably conclude that it had captured the entirety of taxes that should be reported in the pro forma.⁵⁴ Commission Staff recommended that the Commission accept the unadjusted test year amount of \$23,781.

The Commission accepts the test year amount of \$23,781 for Taxes Other Than Income and agrees that no adjustment should be made given that North Manchester Water's general ledger could not be reconciled.

Depreciation Expense. North Manchester Water provided a summary of depreciation with its application which reflected depreciation expense of \$101,051 and a

⁵² North Manchester Water's Response to Deficiency Letter, Schedule of Adjusted Operations, Adjustment I.

⁵³ Commission Staff's Report at 19.

⁵⁴ Commission Staff's Report at 19.

depreciation decrease adjustment of \$18,364.⁵⁵ However, it did not recommend any adjustments to depreciation expense. In its response to a deficiency letter, North Manchester Water provided its Federal Form 4562, Depreciation and Amortization Report, which contains a detailed asset listing which was filed with its 2022 Federal Income Tax Return. Form 4562 reflected a depreciation expense of \$111,254 which is also the amount that North Manchester Water reported for its test year in its Schedule of Adjusted Operations, which was submitted with the same response to the Commission's deficiency letter.⁵⁶

Commission Staff reduced test year depreciation by \$10,203 to \$101,051, which is the book amount provided in North Manchester Water's application.⁵⁷ Commission Staff also made an adjustment of asset service lives to the midpoint of service life ranges set forth in the National Association of Regulatory Utility Commissioners' (NARUC) publication titled "Depreciation Practices for Small Water Utilities" (NARUC Study). Commission Staff's adjustment for the NARUC decrease is \$18,364 as shown in the table below. Commission Staff recommended the Commission approve the proposed reduction of \$10,203 to correct the test-year depreciation expense and approve the proposed reduction of \$18,364 to adjust depreciation to reflect the midpoint life ranges set forth in the NARUC Study.⁵⁸

⁵⁵ Application, unnumbered page 21 of 114.

⁵⁶ North Manchester Water's Response to Deficiency Letter (filed June 22, 2023), at 9.

⁵⁷ Application, unnumbered page 21.

⁵⁸ Commission Staff's Report at 19–20.

Description	Amount
Corrected Test Year Depreciation	\$ 101,051
Test Year Amount ()	(111,254)
Commission Staff Adjustment	<u>\$ (10,203)</u>
NARUC Adjustment	<u>\$ (18,364)</u>

The Commission finds Commission Staff’s first adjustment reasonable because it reflects information provided in North Manchester Water’s application and responses to information requests. The Commission finds Commission Staff’s second adjustment reasonable because, when no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has used the midpoint of the NARUC ranges to depreciate the utility plant. The Commission finds that both adjustments are appropriate and should be accepted.

OVERALL REVENUE REQUIREMENTS

Commission Staff’s Report recommended using the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) full recovery of depreciation expense, a non-cash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense and generally required in bond covenants. The Commission finds that use of the DSC methodology is reasonable since North Manchester Water has a lease obligation with the Clay County Fiscal Court (Fiscal Court) which was funded by a

loan agreement between the Fiscal Court and the Kentucky Infrastructure Authority (KIA).⁵⁹

Based upon the Commission's determinations contained in this Order, the Commission finds that North Manchester Water requires an increase in revenues from water sales of \$58,507, or 5.81 percent above pro forma present water rate revenues as shown below. This increase is required for North Manchester Water to continue to strive toward being operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 908,298
Average Annual Principal and Interest Payments	131,751
Additional Working Capital	26,350
Overall Revenue Requirement	<u>1,066,399</u>
Less: Other Operating Revenue (Interest)	(46)
Revenue Required from Rates	<u>1,066,353</u>
Less: Pro Forma Present Rate Service Revenues	(1,007,846)
Required Revenue Increase	<u><u>\$ 58,507</u></u>
Percentage Increase	<u><u>5.81%</u></u>

Average Annual Principal and Interest Payments. At the time of Commission Staff's review, North Manchester Water had one lease agreement with the Fiscal Court and one finance agreement for the purchase of a vehicle. North Manchester Water proposed a five-year average debt service from 2022 through 2026 of \$151,662.⁶⁰ However, North Manchester Water assumed a full year of lease payments to the Fiscal Court during 2026 and excluded payments on the vehicle loan. The amount submitted in

⁵⁹ Commission Staff's Report at 7.

⁶⁰ North Manchester Water's Response to Deficiency Letter, Revenue Requirement Calculation.

its revenue requirement was reported at \$153,161. Commission Staff recommended a three-year average which results in average debt service of \$131,751 for the period from 2024 through 2026 as shown below. A three-year average better aligns the debt service portion of the revenue requirement with the frequency that North Manchester Water should adjust its rates. The difference in lease payments to the Fiscal Court in 2026 is due to the fact that Commission Staff based its calculations on the amortization schedule for the lease which, based on its original terms, is scheduled to be retired on June 1, 2026. Commission Staff does not have a known and measurable basis to support a longer payment term in the absence of documented modifications to North Manchester Water’s lease agreement with the Fiscal Court, including an updated amortization schedule, to reflect the correct loan balance and revised KIA loan maturity date.⁶¹

The Commission finds that the inclusion of \$131,751 of Average Principal and Interest Payments in the Revenue Requirement formula is reasonable because of the absence of documentation to support a longer term of payments.

Description	2022	2023	2024	2025	2026	Average
Application Table B	\$ 152,131	\$ 151,920	\$ 151,579	\$ 151,291	\$ 151,391	\$ 151,662
Commission Staff Calculation						
Lease with Fiscal Court			151,579	151,291	75,535	
Vehicle Purchase			5,616	5,616	5,616	
Total / Three-Year Average			\$ 157,195	\$ 156,907	\$ 81,151	\$ 131,751
North Manchester Water Revenue Requirements Amount						(153,161)
Difference						\$ (21,410)

Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the

⁶¹ Commission Staff’s Report at 21–22.

minimum net revenues required by an association’s lenders that are above its annual average debt payments. North Manchester Water requested recovery of an allowance for working capital that is equal to 120 percent of its average annual payments, or \$30,334.⁶² Commission Staff recalculated the working capital requirement based on the pro forma debt service adjustment described above resulting in a working capital amount of \$26,350.⁶³

The Commission finds that the inclusion of \$26,350 of additional working capital in the Revenue Requirement formula is reasonable for North Manchester Water to meet minimum net revenues required by the association’s lenders.

RATE DESIGN

North Manchester Water proposed a 26.93 percent increase in its revenue requirement schedule. However, its notice reflected proposed rates that would result in the average monthly amounts and percent increases shown below. The rates for an average residential customer’s monthly water bill using 4,248 gallons would increase \$10.16 from \$35.58 to \$45.74, or 28.55 percent.

Meter Size	Average Monthly Gallons	Current Rates	Proposed Rates	Increase	Percent
5/8" & 3/4" Meter	4,248	\$ 35.58	\$ 45.74	\$ 10.16	28.55%
1" Meter	14,843	\$ 101.43	\$ 142.79	\$ 41.36	40.77%
2" Meter	138,951	\$ 873.27	\$ 1,279.62	\$ 406.36	46.53%
3" Meter	180,870	\$1,133.83	\$ 1,663.60	\$ 529.77	46.72%

⁶² North Manchester Water’s Response to Deficiency Letter, Revenue Requirement Calculation.

⁶³ Commission Staff’s Report at 22–23.

North Manchester Water has not performed a COSS. North Manchester Water stated that it did not complete a COSS because it determined that a study was not necessary as the system had no material changes.⁶⁴ 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. In the Commission Staff's Report, Commission Staff followed the method proposed by North Manchester Water and allocated the \$58,507 revenue increase across North Manchester Water's rate design. Commission Staff calculated rates for each meter classification as shown below. The rates for an average residential customer's monthly water bill using 4,248 gallons would increase \$2.07 from \$35.58 to \$37.65, or 5.82 percent. Including the proposed water loss reduction surcharge of \$3.63 per month, the average bill would increase \$5.70 from \$35.58 to \$41.28, or 16.02 percent.

Meter Size	Average Monthly Gallons	Current Rates	Commission Staff Calculated Rates	Increase	Percent
5/8" & 3/4" Meter	4,248	\$ 35.58	\$ 37.65	\$ 2.07	5.82%
1" Meter	14,843	\$ 101.43	\$ 107.32	\$ 5.88	5.80%
2" Meter	138,951	\$ 873.27	\$ 923.84	\$ 50.57	5.79%
3" Meter	180,870	\$ 1,133.83	\$ 1,199.50	\$ 65.67	5.79%

WATER LOSS SURCHARGE

In the Commission Staff's Report, Commission Staff recommended the Commission approved North Manchester Water's Water Loss Reduction Surcharge at

⁶⁴ Commission Staff's Report at 10.

the calculated amount of \$3.63 per customer per month for 48 months to help lower system losses to more acceptable levels. The surcharge would produce approximately \$85,726 annually, and \$342,904 in total collections over the 48-month period.⁶⁵

The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3). The use of a surcharge is consistent with prior Commission decisions in cases involving water utilities with excessive unaccounted-for water loss. In establishing water-loss surcharges, the Commission recognized that the adjustments required to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water utility's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water utility's water loss reduction efforts allows the Commission to establish strict controls which govern the surcharge proceeds to ensure its effective use. In the report titled *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report* by the Kentucky Public Service Commission dated November 2019 that was fully incorporated in the final Order in Case No. 2019-00041,⁶⁶ Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.⁶⁷

⁶⁵ Commission Staff's Report at 12–13.

⁶⁶ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019*.

⁶⁷ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

In Commission Staff's Report, the water loss surcharge was calculated with a disallowed water loss of \$85,658.⁶⁸

Description	Amount
Disallowed Water Loss	\$ 85,658
Months	12
Customers	1,968
Surcharge Per Customer Per Month	\$ 3.63
Surcharge Months	48
Customers	1,968
Grand Total Surcharge	<u>\$ 342,904</u>

Therefore, the Commission finds that a monthly surcharge is a reasonable means for North Manchester Water to recover the cost for its water leak detection efforts and the cost of its water leak repairs in order to reduce the increased expense and lost revenue from unaccounted-for water loss. Utilizing the \$85,658 disallowed water loss, the Commission finds that a monthly water loss reduction surcharge of \$3.63 per customer over 48 months, or until \$342,904 has been assessed, whichever occurs first, should be approved subject to the following conditions:

1. Within 120 days of the date of service of this Order, North Manchester Water should file into the record of Case No. 2024-00024,⁶⁹ a Qualified Infrastructure Improvement Plan (QIIP), including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

⁶⁸ Commission Staff's Report at 13.

⁶⁹ See Case No. 2024-00024, *Electronic North Manchester Water Association, Inc. Unaccounted-for Water Loss Reduction Plan, Surcharge Monitoring* (Ky. PSC May 3, 2024).

2. North Manchester Water shall deposit surcharge collections in a separate interest-bearing account.

3. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, North Manchester Water should file into the record of Case No. 2024-00024, a monthly activity report that includes a statement of monthly surcharge billings and collections using the format in the Surcharge Reporting form located on the Commission's website, a monthly surcharge bank statement, and a list of all payments made for the month from the surcharge account that includes the following for each payment: the payee, a description of the purpose, and the supporting invoice.

4. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, North Manchester Water should file a monthly water loss report, using the format in the Water Use & Loss Calculations form located on the Commission's website, into the record of Case No. 2024-00024.

5. North Manchester Water should not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

6. North Manchester Water should file all requests to use surcharge proceeds in the record of Case No. 2024-00024. A request shall include a complete description of the equipment, project, or service for which approval is sought; bids, invoices, or price quotes as applicable; and a statement describing how the proposed purchase, project, or service is related to the QIIP and the goal of reducing unaccounted-for water loss.

7. North Manchester Water should consider all surcharge collections as contributions and should account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

8. North Manchester Water should debit monthly billings for the surcharge to customers' accounts received and credit the contribution account.

9. When North Manchester Water collects the surcharge from the customers, it should debit special funds and credit the customer account.

10. No later than April 30 of each year, North Manchester Water should file in Case No. 2024-00024, a report of surcharge activity and water loss improvement progress based on the preceding year ended December 31 with reported annual surcharge billings and expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and North Manchester Water's audited financial statements. Cumulative surcharge billings and expenditures shall also be reported. A schedule of the estimated and actual progress of the program, actual expenditures made with surcharge proceeds, and encumbered amounts of future surcharge proceeds for the purpose of evaluating whether adjustments to the program or to the surcharge amount shall be provided.

11. North Manchester Water should respond to any requests for information propounded by Commission Staff, by the date set forth in the request, as a result of the required filings regarding the surcharge as provided in those requests.

12. North Manchester Water's failure to comply with any conditions attached to its assessment of the surcharge should result in termination of the surcharge and the

refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of the expenses and projects approved by the Commission.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report are supported by the evidence of record and are reasonable. By applying the Debt Service Coverage method to North Manchester Water's pro forma operations results in an Overall Revenue Requirement of \$1,066,353 and that a \$58,507 revenue increase, or 5.81 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by North Manchester Water are denied.
3. The rates set forth in Appendix B to this Order are approved for service rendered by North Manchester Water on and after the date of service of this Order.
4. Within 20 days of the date of service of this Order, North Manchester Water shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges authorized by this Order.
5. The Commission shall open a separate proceeding, Case No. 2024-00024, to monitor the surcharge proceeds collection and expenses subject to the following conditions:

a. Within 120 days of the date of service of this Order, North Manchester Water shall file into the record of Case No. 2024-00024 a QIIP, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. North Manchester Water shall deposit surcharge collections in a separate interest-bearing account.

c. On the 15th day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, North Manchester Water shall file into the record of Case No. 2024-00024 a monthly activity report that includes a statement of monthly surcharge billings and collections using the format in the Surcharge Reporting form located on the Commission's website, a monthly surcharge bank statement, and a list of all payments made for the month from the surcharge account that includes the following for each payment: the payee, a description of the purpose, and the supporting invoice.

d. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, North Manchester Water shall file into the record of Case No. 2024-00024 a monthly water loss report, using the format in the Water Use & Loss Calculations form located on the Commission's website, with the Commission.

e. North Manchester Water shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

f. North Manchester Water shall file all requests to use surcharge proceeds in the record of Case No. 2024-00024. A request shall include a complete description of the equipment, project, or service for which approval is sought; bids, invoices, or price quotes as applicable; and a statement describing how the proposed purchase, project, or service is related to the qualified infrastructure improvement plan and the goal of reducing unaccounted-for water loss.

g. North Manchester Water shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

h. North Manchester Water shall debit monthly billings for the surcharge to customers' accounts received and credit the contribution account.

i. When North Manchester Water collects the surcharge from the customers, it shall debit special funds and credit the customer account.

j. No later than April 30 of each year, North Manchester Water shall file in Case No. 2024-00024, a report of surcharge activity and water loss improvement progress based on the preceding year ended December 31 with reported annual surcharge billings and expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and North Manchester Water's audited financial statements. Cumulative surcharge billings and expenditures shall also be reported. A schedule of the estimated and actual progress of the program, actual expenditures made with surcharge proceeds, and encumbered amounts of future surcharge proceeds for the purpose of evaluating whether adjustments to the program or to the surcharge amount shall be provided.

k. North Manchester Water shall respond to any requests for information propounded by Commission Staff, by the date set forth in the request, as a result of the required filings regarding the surcharge as provided in those requests.

l. North Manchester Water's failure to comply with any conditions attached to its assessment of the surcharge shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

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

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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. 2023-00183 DATED MAY 06 2024

* Denotes Rounding

Nonrecurring Charges Adjustments

	<u>Disconnection Charge</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$18.45 @ 1 hr x 2 employee)	\$36.90	
Office Supplies		
Office Labor	\$8.31	
Transportation (22 miles @ 0.655)	\$14.00	\$14.00
Misc.		
Total Revised Charge	<u>\$59.21</u>	<u>\$14.00</u>
Current Rate	\$45.00	

	<u>Reconnection Charge</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$18.45 @ 1 hr x 2 employee)	\$36.90	
Office Supplies		
Office Labor	\$8.31	
Transportation (22 miles @ 0.655)	\$14.00	\$15.00
Misc.		
Total Revised Charge	<u>\$59.21</u>	<u>\$15.00</u>
Current Rate	\$45.00	

	<u>Returned Check Charge</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$20.00 at 1 hour)		
Office Supplies		
Office Labor (\$16.62 at 2 hours)	\$33.24	\$0.00
Transportation		
Misc.		
Total Revised Charge	<u>\$34.00</u>	<u>\$0.00</u>

Current Rate \$20.00

<u>Service Call/Investigation</u>		
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$21.28 at 2 hours)	\$42.56	
Office Supplies		
Office Labor (\$16.62 at 1 hour)	\$16.62	
Transportation (22 miles @ 0.655)	\$14.00	\$15.00
Misc.		
Total Revised Charge	<u>\$73.00</u>	<u>\$15.00</u>
Current Rate	\$45.00	

<u>Service Call/Investigation (after hours)</u>		
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$29.91 at 2 hours)	\$59.82	\$60.00
Office Supplies		
Office Labor (\$16.62 at 1 hour)	\$16.62	\$0.00
Transportation (22 miles @ 0.655)	\$14.00	\$15.00
Bank Charge		
Total Revised Charge	<u>\$90.00</u>	<u>\$75.00</u>
Current Rate	\$55.00	

<u>Meter Test Charge</u>		
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$21.28 at 3 hours)	\$63.84	
Office Supplies		
Office Labor (\$16.62 at 1 hour)	\$16.62	
Transportation (22 miles @ 0.655)	\$14.00	\$15.00
Misc.		
Total Revised Charge	<u>\$95.00</u>	<u>\$15.00</u>
Current Rate	\$75.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00183 DATED MAY 06 2024

The following rates and charges are prescribed for the customers in the area served by North Manchester Water Association, Inc. 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

5/8-inch & 3/4-inch Meter

First	2,000 Gallons	\$22.86	Minimum Bill
Over	2,000 Gallons	\$0.00658	Per Gallon

1-inch Meter

First	5,000 Gallons	\$42.55	Minimum Bill
Over	5,000 Gallons	\$0.00658	Per Gallon

2-inch Meter

First	15,000 Gallons	\$108.24	Minimum Bill
Over	15,000 Gallons	\$0.00658	Per Gallon

3-inch Meter

First	30,000 Gallons	\$206.78	Minimum Bill
Over	30,000 Gallons	\$0.00658	Per Gallon

Nonrecurring Charges

5/8 x 3/4 Inch Water Tap On All Larger Meters	\$1,414.00 Actual Cost
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Late Payment Penalty	10%
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Disconnection Charge	\$15.00
Reconnection Charge	\$15.00
Returned Check Charge	\$00.00
Service Call / Investigation	\$15.00
Service Call / Investigation After Hours	\$74.00

Meter Test Request	\$15.00
Damage to Meter Setting or Lid	Actual
Meter Relocate	Actual

Water Loss Reduction Surcharge

\$3.63 Per Month

*James W Gardner
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

*North Manchester Water Association, Inc.
7361 N Highway 421
Manchester, KY 40962

*Rebecca C. Price
Sturgill, Turner, Barker & Moloney
155 East Main Street
Lexington, KENTUCKY 40507

*M. Todd Osterloh
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507