

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MUHLENBERG)	
COUNTY WATER DISTRICT #3 FOR AN)	CASE NO.
ALTERNATIVE RATE ADJUSTMENT PURSUANT)	2023-00400
TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of January 9, 2024, as amended on April 11, 2024, and May 14, 2024, attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's January 9, 2024, as amended on April 11, 2024 and May 14, 2024 Order, Muhlenberg County Water District #3 (Muhlenberg District #3) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Muhlenberg District #3 to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.

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



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

DATED MAY 30 2024

cc: Parties of Record

Case No. 2023-00400

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COMMISSION STAFF'S REPORT
ON MUHLENBERG COUNTY WATER DISTRICT #3

Muhlenberg County Water District #3 (Muhlenberg District #3) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 1,983 residential customers and 85 commercial customers that reside in McLean and Muhlenberg counties, Kentucky.¹

On December 20, 2023,² Muhlenberg District #3 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 9,³ Muhlenberg District #3 used the calendar year ended December 31, 2022, as the basis for its application. Muhlenberg District #3's last base rate increase pursuant to the alternative

¹ *Annual Report of Muhlenberg Water District #3 to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

² Muhlenberg District #3 tendered its application on December 12, 2023. By letter dated December 14, 2023, the Commission rejected the application for notice related filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on December 20, 2023.

³ 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.

rate filing procedure was in Case No. 2018-00346.⁴ Since that matter, Muhlenberg District #3 has only adjusted its rates pursuant to purchased water adjustments.⁵ To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 9, 2024. Muhlenberg District #3 responded to three requests for information from Commission Staff.⁶

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Muhlenberg District #3 reported a water loss of 19.1359 percent.⁷ Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2022 total annual cost of water loss to Muhlenberg District #3 is \$126,804, while the annual cost of water loss in excess of 15 percent is \$27,407.

⁴ Case No. 2018-00346, *Small Utilities Rate Adjustment Filing of Muhlenberg District #3* (Ky. PSC Apr. 8, 2019), final Order.

⁵ Case No. 2019-00387, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District #3* (Ky. PSC Nov. 20, 2019) and Case No. 2022-00231, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District No. 3* (Ky. PSC Sept. 2, 2022).

⁶ Muhlenberg District #3's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 7, 2024). Muhlenberg District #3's Supplemental Response to Commission Staff's First Request for Information (filed Feb. 13, 2024). Muhlenberg District #3's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Mar. 6, 2024). Muhlenberg District #3's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Apr. 24, 2024).

⁷ 2022 Annual Report at 58.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 639,836	\$ 22,815	\$ 662,651
Water Loss Percent	19.1359%	19.1359%	
Total Water Loss	\$ 122,438	\$ 4,366	\$ 126,804

Disallowed Water Loss	Water	Power	Total
Pro Forma Purchases	\$ 639,836	\$ 22,815	\$ 662,651
Disallowed Water Loss Percent	4.1359%	4.1359%	
Water Loss In Excess of Allowed Amount	\$ 26,463	\$ 944	\$ 27,407

DISCUSSION

Using its pro forma test-year operations, Muhlenberg District #3 determined that a base rate revenue increase of \$258,478, or 19.46 percent, was necessary to achieve the revenue requirement as shown in the table below.

	<u>Muhlenberg District</u>
Pro Forma Operating Expenses	\$ 1,448,168
Divide by: 88 percent Operating Ratio	88%
Total Revenue Requirement	<u>1,645,645</u>
Less: Other Operating Revenue	(55,953)
Interest Income	(3,282)
Revenue Required From Water Sales	<u>1,586,410</u>
Less: Revenue from Sales at Present Rates	(1,327,932)
Required Revenue Increase	<u><u>258,478</u></u>
Percent Increase	<u><u>19.46%</u></u>

To determine the reasonableness of the rates requested by Muhlenberg District #3, Commission Staff performed a limited financial review of Muhlenberg District #3's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations.

Known and measurable⁸ changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. Noah Abner reviewed the calculation of Muhlenberg District #3's Overall Revenue Requirement, and Liz Stefanski reviewed Muhlenberg District #3's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio method, as used by Muhlenberg District #3, and generally accepted by the Commission, Commission Staff found that Muhlenberg District #3's required revenue from water sales is \$1,600,893 to meet the Overall Revenue Requirement of \$1,650,241, and that a \$263,291 revenue increase, or 19.68 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Water Loss Reduction Surcharge. In its application, Muhlenberg District #3 requested to implement a per customer monthly water loss reduction surcharge of \$1.10.⁹ Muhlenberg District #3 did not provide any information with respect to future water loss

⁸ Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

⁹ Application, Reasons for Application.

reduction plans or a time period for the water loss surcharge. The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss.¹⁰ Recognizing prior Commission precedent that allows the use of surcharges to assist utilities in obtaining the proper funding needed to combat water loss, Commission Staff recommends that the Commission approve a water loss surcharge for Muhlenberg District #3.

Commission Staff calculated a disallowed water loss expense of \$27,407 in the table above. Commission Staff multiplied the test year customer count of 2,069¹¹ by 12 for a total number of bills of 24,828. As shown below, Commission Staff calculated the same \$1.10 water loss reduction surcharge as Muhlenberg District #3 proposed. Commission Staff recommends a per customer monthly water loss reduction surcharge of \$1.10 for 48 months or \$109,628 for the life of the surcharge.

Disallowed Water Loss	\$	27,407
No. of Bills		24,828
Monthly Surcharge	\$	<u>1.10</u>

In keeping with Commission practice, Commission Staff recommends that the Commission establish a separate proceeding to monitor the surcharge, place strict controls over the use of the funds that will be collected from the surcharge and require

¹⁰ See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges*, (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2010); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 11-13.

¹¹ 2022 Annual Report at 49.

Muhlenberg District #3 to develop a long-term plan to combat water loss within 120 days of the final Order in this proceeding.

3. Monthly Water Service Rates. Based upon the revenue requirement, Muhlenberg District #3 proposed to increase all of its monthly retail water service rates by approximately 19.46 percent across the board. Muhlenberg District #3 did not perform a cost of service study (COSS).¹² 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. Commission Staff followed the allocation methodology proposed by Muhlenberg District #3 and allocated the \$263,291 revenue increase evenly across Muhlenberg District #3's monthly retail water service rates. The rates set forth in Appendix B to this report are based upon the total revenue requirement of \$1,650,241, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$1,600,893 Revenue Required from Water Sales, an approximate 19.68 percent increase.

The rates will increase the monthly water bill of a typical residential customer using 4,000 gallons, from \$42.15 to \$50.39, an increase of \$8.24, or 19.55 percent. The rates, including the monthly water loss surcharge, will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$42.15 to \$51.49, an increase of \$9.34, or 22.16 percent, of which \$1.10 or 2.61 percent is due to the water loss reduction surcharge.

¹² Muhlenberg District #3's Response to Staff's First Request, Item 19.

4. Nonrecurring Charges. Following the Commission’s recent decisions,¹³ Commission Staff has reviewed Muhlenberg District #3’s Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Muhlenberg District #3 provided updated cost justification information for the Nonrecurring Charges¹⁴ and Meter Tap Charges.¹⁵ Commission Staff reviewed the cost justification information provided by Muhlenberg District #3 and have adjusted these charges by removing the Field Labor Costs and the Office/Clerical Labor Costs from those charges that occur during normal business hours. Commission Staff also removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal business hours. The calculation of these adjustments to the Nonrecurring Charges are included in a table provided in Appendix A. The Commission Staff’s proposed nonrecurring charges and Tap On Fee are listed below:

	<u>Nonrecurring Charges</u>	
	<u>Current Charge</u>	<u>Revised Charge</u>
Connection Turn-On Charge	\$25.00	\$7.00
Investigation Charge	\$40.00	\$7.00
Meter Lock Damage	\$40.00	Actual

¹³ 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).

¹⁴ Muhlenberg District #3’s Supplemental Response to Staff’s First Request, [16_Nonrecurring_Charges_Regular_Hours_Cost_Justification.pdf](#), and [16_Nonrecurring_Charges_After_Hours_Cost_Justification.pdf](#).

¹⁵ Muhlenberg District #3’s Supplemental Response to Staff’s First Request, [16_Tapping_Fee_Cost_Justification.pdf](#).

Meter Test Charge	\$35.00	35.00
Reconnection Charge	\$40.00	\$7.00
Returned Check Charge	\$40.00	\$0.00
Service Call	\$40.00	\$7.00
After Hours Reconnection Charge	\$90.00	\$103.00
5/8 Inch Water Tap On		\$1,350.00
All Larger than 5/8-inch Meters		Actual

The adjustments to Nonrecurring Charges result in a decrease to test year Other Water Revenues of \$9,887 as shown below¹⁶:

Nonrecurring Charge	No.	Current Charge	Total	Revised Charge	Adjustment	Pro Forma
Bank Fees - Credit Card			\$11,324		n/a	\$11,324
Bad Debt Recovery			\$823		n/a	\$823
Office Copies			\$21		n/a	\$21
Connection Turn-On Charge	0	\$25.00	0	\$7.00	\$0	\$0
Field Collection Charge	2	\$10.00	\$20	\$10.00	\$0	\$20
Investigation Charge	1	\$40.00	\$40	\$7.00	(\$33)	\$7
Meter Lock Damage	1	\$40.00	\$40	\$40.00	\$0	\$40
Meter Test Charge	0	\$35.00	0	\$35.00	\$0	\$0
Reconnection Charge	239	\$40.00	\$9,560	\$7.00	(\$7,959)	\$1,601
Returned Check Charge	13	\$40.00	\$520	\$0.00	(\$520)	\$0
Service Call	85	\$40.00	\$2,125	\$7.00	(\$1,555)	\$570
After Hours Reconnection Charge	14	\$90.00	\$1,260	\$103.00	\$180	\$1,440
			<u>\$25,733</u>		<u>(\$9,887)</u>	<u>\$15,846</u>

PRO FORMA OPERATING STATEMENT

Muhlenberg District #3's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.

¹⁶ Muhlenberg District #3's Response to Staff's First Request, 1a_General_Ledger_2022.pdf, at 425-545.

	Test Year	Muhlenberg District #3 Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref.)	Pro Forma
Operating Revenues						
Metered Sales to Retail Customers	\$1,272,349	\$ 44,010	\$ 9,670	\$ 53,680	(A)	\$1,326,029
Sales for Resale	9,670	1,903		1,903	(A)	11,573
Other Water Revenues:						
Forfeited Discounts	18,739			-		18,739
Misc. Service Revenue	25,733		(9,887)	(9,887)	(B)	15,846
Other Water Revenue	11,481			-		11,481
Total Operating Revenues	1,337,972	45,913	(217)	45,696		1,383,668
Operating Expenses						
Operation and Maintenance Expenses						
Salaries and Wages - Employees	300,235	38,737	(14,230)	24,507	(C)	324,742
Salaries and Wages - Commissioners	18,000					18,000
Employee Pensions and Benefits	144,671	(10,030)	12,174	2,144	(D)	
			2,629	2,629	(E)	149,444
Purchased Water	635,079	(26,266)	(197)	(26,463)	(F)	
			4,757	4,757	(F)	613,373
Purchased Power	22,815	(944)		(944)	(G)	21,871
Materials and Supplies	53,011			-		53,011
Contractual Services	43,671			-		43,671
Transportation Expenses	20,414			-		20,414
Insurance - General Liability & Other	19,183			-		19,183
Insurance - Workers Comp	2,293			-		2,293
Advertising Expenses	217			-		217
Bad Debt	4,508			-		4,508
Miscellaneous Expenses	41,501			-		41,501
Total Operation and Maintenance Expenses	1,305,598	1,497	5,133	6,630		1,312,228
Depreciation Expense	113,158			-		113,158
Taxes Other Than Income	26,474	1,440	(1,088)	352	(H)	26,826
Total Operating Expenses	1,445,230	2,937	4,045	6,982		1,452,212
Net Operating Income	(107,258)	42,976	(4,262)	38,714		(68,544)
Interest Income	3,282			-		3,282
Income Available to Service Debt	\$ (103,976)	\$ 42,976	\$ (4,262)	\$ 38,714		\$ (65,262)

(A) Billing Analysis. In its application, Muhlenberg District #3 proposed an increase of \$44,010 to Total Metered Retail Sales for the test year of 2022 to reflect the current billing analysis.¹⁷ Muhlenberg District #3 reported total metered water sales for the test year of \$1,272,349.¹⁸ Muhlenberg District #3 provided a billing analysis to calculate a normalized revenue amount of \$1,316,359, based on the usage during the

¹⁷ Application, Schedule of Adjusted Operations, Adjustment A.

¹⁸ 2022 Annual Report at 49.

test year and using the rates authorized in its current tariff.¹⁹ Muhlenberg District #3 provided its billing analysis and Schedule of Adjusted Operations (SAO) as an Excel file,²⁰ in which Commission Staff found that the formula calculating the adjustment of \$44,010 is mathematically incorrect. Commission Staff calculated an increase adjustment to Retail Sales of \$53,680, as shown in the table below. Commission Staff recommends Commission approval of the adjustment to increase Total Retail Metered Sales by \$53,680, because it meets the rate making criteria of being known and measurable.

Revenue Classification	Bills	Gallons Sold	Revenue
Residential	23,679	86,206,100	990,908
Commercial	1,043	44,658,000	346,010
Totals	<u>24,722</u>	<u>130,864,100</u>	\$1,336,918
Less: Billing Adjustments			(10,889)
Normalized Revenue			<u>\$1,326,029</u>
Less: Metered Sales in Annual Report			(1,272,349)
Adjustment Needed to Retail Sales			<u><u>\$53,680</u></u>

Sales for Resale. In its application, Muhlenberg District #3 proposed an increase of \$1,903 to Sales for Resale for the test year of 2022 to reflect the current billing analysis.²¹ Muhlenberg District #3 reported total Sales for Resale for the test year of \$9,670.²² Muhlenberg District #3 provided a billing analysis to calculate a normalized revenue amount of \$11,573, based on the Sales for Resale usage during the test year

¹⁹ Application, unnumbered page 13 of 48.

²⁰ Muhlenberg District #3's Response to Staff's First Request, Rate_Study_Muhlenberg_No_3.xlsx, Tab ExBA and Tab SAO.

²¹ Application, Schedule of Adjusted Operations, Adjustment A.

²² 2022 Annual Report at 49.

and using the current rates.²³ Commission Staff's calculations matched Muhlenberg District #3's proposed adjustment of \$1,903 to Sales for Resale revenue. Commission Staff recommends Commission approval of an increase to Sales for Resale revenue of \$1,903.

(B) Miscellaneous Service Revenue. As discussed in the Nonrecurring Charges section above, the adjustments to the nonrecurring charges result in a decrease in Miscellaneous Service Revenue of \$9,887. Commission Staff verified Muhlenberg District #3's Miscellaneous Service Revenue of \$25,733 as reported in its 2022 Annual Report, which is made up of \$14,410²⁴ from the General Ledger account titled Misc. Service Revenues and \$11,323²⁵ from the General Ledger account titled Credit Card Fees²⁶ As discussed above in the Nonrecurring Charges paragraph, Commission Staff removed all labor costs for charges occurring during normal business hours and all office labor charges from After-Hours nonrecurring charges. In addition, Commission Staff disallowed the Returned Check Charge revenue of \$520 because Muhlenberg District #3 is not charged any bank fees for deposited checks that are returned for insufficient funds.²⁷ The \$11,481 included in Other Water Revenue is collection and remittance of the 911 Fee assessed by the county.²⁸ Commission Staff recommends the Commission

²³ Muhlenberg District #3's Response to Staff's First Request, Rate_Study_Muhlenberg_No_3.xlsx, Tab ExBA and Tab SAO.

²⁴ Muhlenberg District #3's Response to Staff's First Request, 1a_General_Ledger_2022.pdf, at 425-430.

²⁵ Muhlenberg District #3's Response to Staff's First Request, 1a_General_Ledger_2022.pdf, at 430-545.

²⁶ 2022 Annual Report at 49.

²⁷ Muhlenberg District #3's Response to Staff's Third Request, Item 1.

²⁸ Muhlenberg District #3's Response to Staff's Third Request, Item 2.

approve Commission Staff's \$9,887 decrease to Miscellaneous Service Revenue, because it conforms with Commission precedent on Nonrecurring Charges.

(C) Salaries and Wages - Employees. In its application, Muhlenberg District #3 proposed a \$38,737 increase to Salaries and Wages – Employees expense to reflect board approved employee wage increases effective in 2024 and 2025.²⁹ Commission Staff, using the tables below, recalculated Muhlenberg District #3's proposed wages increase using only the 2024 wage increases. Commission Staff did not include the 2025 wage increases in its calculation because the increase is not effective until after the statutory date of this case. Commission regulation 807 KAR 5:076 Section 9 specifies that "...the proposed rates shall be determined using a twelve (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." The Commission has allowed for known and measurable changes that adjust historic test year revenues and expenses to the current period, however, a pro forma adjustment for even a known and measurable change that will occur beyond the statutory date of the case crosses over into a forecasted test period that is not authorized for use of the alternative rate filing regulations. Commission Staff used wage information Muhlenberg District #3 provided in its responses.³⁰

²⁹ Application, Schedule of Adjusted Operations, Adjustment B.

³⁰ Muhlenberg District #3's Response to Staff's First Request, Item 5; Muhlenberg District #3's Response to Staff's Second Request, Item 3.

2024	Job Title	Proforma Pay Rate	Test Year Hours worked	Proforma Regular Wages	Test Year Overtime Hours	Proforma Overtime Wages	Proforma Total Wages
Position1	General Manager	\$ 30.16	2,080.00	\$ 62,732.80	0	0	\$ 62,732.80
Position2	Office Manager	23.73	2,080.00	49,358.40	34	1,223.40	50,581.80
Position3	Billing Clerk	18.62	2,080.00	38,729.60	83	2,314.56	41,044.16
Position4	Utility Clerk	15.50	1,474.82	22,859.71	0	0	22,859.71
Position5	Superintendent	22.62	2,080.00	47,049.60	208	7,069.65	54,119.25
Position6	Field Operator	20.12	2,080.00	41,849.60	327	9,880.93	51,730.53
Position7	Field Operator	18.00	2,080.00	37,440.00	157	4,234.14	41,674.14
Total			13,954.82	\$ 300,020.00	810	\$ 24,723.00	\$ 324,742.00

Pro Forma Salaries and Wages Expense	\$ 324,742
Test Year Salaries and Wages Expense	300,235
Adjustment	<u>\$ 24,507</u>

Commission Staff calculated a total increase to Salaries and Wages – Employees expense of \$24,507 or a reduction of \$14,230 to Muhlenberg District #3’s proposed \$38,737 increase. Commission Staff’s calculated total pro forma Salaries and Wages – Employees expense is \$324,742. Commission Staff recommends the Commission approve Commission Staff’s proposed \$24,507 total increase to Salaries and Wages – Employees expense to reflect current wage rates for Muhlenberg District #3 because it is a known and measurable change.

(D) Medical and Dental Premiums. In its application, Muhlenberg District #3 proposed a \$10,030 decrease to Employee Pensions and Benefits to reflect the allowable health insurance premium based on the Bureau of Labor Statistics’ (BLS) national average for an employer’s share of health insurance premiums and 60 percent employer contribution rate for dental premiums.³¹ Commission Staff reviewed Muhlenberg District #3’s calculation of its proposed adjustment and notes that the district used a dental employer contribution rate of 60 percent and did not use current premiums. The

³¹ Application, Schedule of Adjusted Operations, Adjustment C.

Commission has used a dental employer contribution rate of 40 percent in the past based on the Willis Benchmark Survey.³²

Commission Staff, using the tables below, recalculated Muhlenberg District #3's BLS and dental adjustment with a 40 percent dental employer contribution rate, 79 percent single medical employer contribution rate,³³ and updated premiums Muhlenberg District #3 provided.³⁴

Position	Job Title	Medical Insurance			Employer Contribution	Allowable Premium
		Single or Family Coverage	Monthly Premium	Annual Premium		
1	General Manager	Single	\$ 629.00	\$ 7,548.00	79%	\$ 5,962.92
2	Office Manager	Single	694.32	8,331.84	79%	6,582.15
3	Billing Clerk	Single	846.11	10,153.32	79%	8,021.12
4	Utility Clerk	N/A	0	0	0%	0.00
5	Superintendent	Single	831.12	9,973.44	79%	7,879.02
6	Field Operator	Single	271.57	3,258.84	79%	2,574.48
7	Field Operator	Single	389.14	4,669.68	79%	3,689.05
		Total	<u>\$ 3,661</u>	<u>\$ 43,935</u>		<u>\$ 34,709</u>

Position	Job Title	Dental Insurance			Employer Contribution	Allowable Premium
		Single or Family Coverage	Monthly Premium	Annual Premium		
1	General Manager	Single	\$ 23.92	\$ 287.04	40%	114.82
2	Office Manager	Single	23.92	287.04	40%	114.82
3	Billing Clerk	Family	72.04	864.48	40%	345.79
4	Utility Clerk	N/A	0	0	0	0.00
5	Superintendent	Family	72.04	864.48	40%	345.79
6	Field Operator	Single	23.92	287.04	40%	114.82
7	Field Operator	Family	72.04	864.48	40%	345.79
		Total	<u>\$ 288</u>	<u>\$ 3,455</u>		<u>\$ 1,382</u>

³² Muhlenberg District #3's Response to Staff's First Request, Item 6. Muhlenberg District #3's Response to Staff's Second Request, Item 2.

³³ Bureau of Labor Statistics' Share of Premiums Paid by Employer and Employee for Single Coverage, 2023. (<https://www.bls.gov/news.release/ebs2.t03.htm>).

³⁴ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017) at 9-10, and The Willis Benchmarking Survey, 2015 at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

Pro Forma Medical	\$	34,709	Pro Forma Dental	\$	1,382	Medical Adjustment	2,485
Test Year Medical		<u>32,224</u>	Test Year Dental		<u>1,722</u>	Dental Adjustment	<u>(340)</u>
Adjustment	\$	<u>2,485</u>	Adjustment	\$	<u>(340)</u>	Total Adjustment	<u>2,144</u>

Commission Staff calculated a total increase to Employee Pensions and Benefits of \$2,144 or an increase of \$12,174 to Muhlenberg District #3's proposed \$10,030 decrease. Commission Staff recommends the Commission approve Commission Staff's proposed \$2,144 total increase to Employee Pensions and Benefits expense to reflect current premiums for Muhlenberg District #3 and the allowable health insurance premium based on BLS national average for an employer's share of health insurance premiums and 40 percent for dental premiums.

(E) County Employees Retirement System (CERS). In its application, Muhlenberg District #3 did not propose to make an adjustment to Employee Pensions and Benefits expense for changes in CERS contribution rates since the test year. Commission Staff, using the pro forma wages from above, calculated a \$2,629 increase to Employee Pensions and Benefits. Commission Staff used the current CERS contribution rate of 26.79 percent³⁵ and a test year amount of \$78,245 Muhlenberg District #3 provided in its responses.³⁶

Wages applicable to CERS payments	\$	301,883
Times: Percent Pension Contribution		<u>26.79%</u>
Total Pro Forma Pension Contribution		80,874
Less Test Year Pension Contribution		<u>78,245</u>
Adjustment	\$	<u>2,628.99</u>

³⁵ Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority. (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

³⁶ Muhlenberg District #3's Response to Staff's First Request, Item 6.

Commission Staff recommends the Commission approve Commission Staff's proposed \$2,629 increase to Employee Pensions and Benefits expense to reflect current CERS contribution rates and increases in wages.

(F) Purchased Water. Muhlenberg District #3 reported a water loss of 19.1359 percent in its 2021 Annual Report.³⁷ In its application, Muhlenberg District #3 proposed a \$26,266 decrease to Purchased Water expense to reflect the maximum allowable water loss expense collected for rating making purposes of 15 percent.³⁸ Commission Staff reviewed Muhlenberg District #3's calculation and notes that that the district used the test year Purchased Water expense amount of \$635,079 in its calculation.³⁹ Commission Staff calculated a pro forma Purchased Water expense of \$639,836 as shown in the table below. Commission Staff used total purchased gallons from the test year⁴⁰ and the district's current purchase rate of water from Central City Municipal Water and Sewer of \$3.81 per thousand gallons to calculate a \$4,757 increase to Purchased Water expense.⁴¹ Commission Staff recommends the Commission approve Commission Staff's proposed \$4,757 increase to Purchased Water expense to reflect Muhlenberg District #3's current purchase rate of water from Central City Municipal Water and Sewer.

³⁷ 2022 Annual Report at 58.

³⁸ Application, Schedule of Adjusted Operations, Adjustment D.

³⁹ Muhlenberg District #3's Response to Staff's First Request, Item 11, Rate_Study_Muhlenberg_No_3.xlsx.

⁴⁰ 2022 Annual Report at 57.

⁴¹ Muhlenberg District #3's Response to Staff's First Request, Item 13.

Description	Total
Gallons	167,936
Current Purchase Rate	\$ 3.8100
Pro Forma Cost	\$ 639,836
Test Year Purchase Cost	635,079
Increase in Purchase Cost	\$ 4,757

Commission Staff calculated a total decrease of \$26,463 to Purchased Water expense or a reduction of \$197 to Muhlenberg District #3's proposed \$26,266 decrease. Commission Staff recommends the Commission approve Commission Staff's proposed \$26,463 total decrease to Purchased Water expense to reflect Muhlenberg District #3's current purchase rate of water from Central City Municipal Water and Sewer and the maximum allowable water loss expense collected for rating making purposes of 15 percent.

Disallowed Water Loss	Water
Pro Forma Purchases	\$ 639,836
Disallowed Water Loss Percent	4.1359%
Water Loss In Excess of Allowed Amount	\$ 26,463

(G) Purchased Power. In its application, Muhlenberg District #3 proposed a \$944 decrease to Purchased Power expense to reflect the maximum allowable water loss expense collected for rating making purposes of 15 percent.⁴² Commission Staff reviewed Muhlenberg District #3's calculation of its Purchased Power adjustment.⁴³ Commission Staff agrees with Muhlenberg District #3 proposed a \$944 decrease to Purchased Power expense and recommends the Commission approve the district's

⁴² Application, Schedule of Adjusted Operations, Adjustment D.

⁴³ Muhlenberg District #3's Response Staff's First Request, Item 11, Rate_Study_Muhlenberg_No_3.xlsx.

adjustment to reflect the maximum allowable water loss expense collected for rating making purposes of 15 percent.

(H) Payroll Tax. In its application, Muhlenberg District #3 proposed a \$1,440 increase to Taxes Other Than Income to reflect board approved employee wage increases.⁴⁴ Commission Staff, using the pro forma Salaries and Wages – Employees expense of \$324,742 as calculated above, calculated a new Payroll Tax adjustment below. Commission Staff used a test year amount of payroll taxes of \$24,491 from Muhlenberg District #3’s response.⁴⁵

Pro Forma Salaries and Wages Expense	\$	324,742
Times: 7.65 Percent FICA Rate		<u>7.65%</u>
Pro Forma Payroll Taxes		<u>24,843</u>
Less: Test Year Payroll Taxes		<u>(24,491)</u>
Payroll Tax Adjustment	\$	<u><u>352</u></u>

Commisison Staff calculated a total increase to Taxes Other Income of \$352 or a reduction of \$1,088 to Muhlenberg District #3’s proposed \$1,440 increase. Commission Staff recommends the Commission approve Commission Staff’s proposed \$352 total increase to Salaries and Wages – Employees expense to reflect current wage rates for Muhlenberg District #3.

OVERALL REVENUE REQUIREMENT

The operating ratio methodology is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Muhlenberg District #3 has no long-term debt. This method also allows for adequate cash working capital for the utility, which

⁴⁴ Application, Schedule of Adjusted Operations, Adjustment B.

⁴⁵ Muhlenberg District #3’s Response Staff’s First Request, Item 1b, 1b_2022_Trial_Balance.xlsx.

is normally calculated as a component of debt instruments. Commission Staff finds the operating ratio method is appropriate for Muhlenberg District #3. Commission Staff is of the opinion that an operating ratio of 88 percent will allow Muhlenberg District #3 sufficient revenues to cover its operating expenses and provide for reasonable equity growth.

By applying the operating ratio method, Commission Staff determined Muhlenberg District #3 Overall Revenue Requirement to be \$1,650,241. Commission Staff calculated a revenue increase of \$263,291, or 19.68 percent, is necessary to generate the Overall Revenue Requirement. Commission Staff's calculation of the Overall Revenue Requirement and the Required Revenue Increase using the operating ratio method is shown below.

	Muhlenberg District	Commission Staff
Pro Forma Operating Expenses	\$ 1,448,168	\$ 1,452,212
Divide by: 88 percent Operating Ratio	88%	88%
Total Revenue Requirement	1,645,645	1,650,241
Less: Other Operating Revenue	(55,953)	(46,066)
Interest Income	(3,282)	(3,282)
Revenue Required From Water Sales	1,586,410	1,600,893
Less: Revenue from Sales at Present Rates	(1,327,932)	(1,337,602)
Required Revenue Increase	258,478	263,291
Percent Increase	19.46%	19.68%

Signatures

/s/ Noah Abner

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

/s/ Elizabeth Stefanski

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

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00400 DATED MAY 30 2024

* Denotes Rounding

Nonrecurring Charges Adjustments		
	Connection/Turn-On Charge Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$32.94 per hour)	\$32.94	
Office Supplies		
Office Labor	\$13.16	
Transportation (10 miles @ 0.67 per miles)	\$6.70	\$6.70
Total Revised Charge	\$52.80	\$7.00
Current Rate	\$25.00	
Reconnection Charge		
	Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$32.94 per hour)	\$32.94	
Office Supplies		
Office Labor	\$13.16	
Transportation (10 miles @ 0.67 per miles) <u>Non</u>	\$6.70	\$6.70
Total Revised Charge	\$52.80	\$7.00
Current Rate	\$40.00	
Service Call		
	Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$32.94 per hour)	\$32.94	
Office Supplies		
Office Labor	\$13.16	
Transportation (10 miles @ 0.67 per miles)	\$6.70	\$6.70
Total Revised Charge	\$52.80	\$7.00

Current Rate		\$40.00
	<hr/>	
	Reconnection Charge-After Hours	
	Utility Revised Charge	Staff Revised Charge*
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Field Materials		
Field Labor (\$48.07 at 2 hours)	\$96.14	\$96.14
Office Supplies		
Office Labor	\$13.16	\$0.00
Transportation (10 miles @ 0.67 per miles)	\$6.70	\$6.70
Total Revised Charge	\$116.00	\$103.00
	<hr/> <hr/>	
Current Rate		\$90.00

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00400 DATED MAY 30 2024

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County Water District #3. 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 X 3/4-Inch Meter

First	2,000 Gallons	\$30.37	Minimum Bill
Next	8,000 Gallons	0.01001	Per Gallon
Next	10,000 Gallons	0.00957	Per Gallon
Next	30,000 Gallons	0.00901	Per Gallon
Over	50,000 Gallons	0.00859	Per Gallon

Wholesale Rate

First	300,000 Gallons	\$1,608.47	Minimum Bill
Over	300,000 Gallons	0.00534	Per Gallon

Water Loss Reduction Surcharge

\$1.10 Per Meter

To be collected monthly per meter for 48 months or until approximately \$27,407 is collected.

Nonrecurring Charges

Connection Turn-On Charge	\$7.00
Field Collection Charge	\$10.00
Investigation Charge	\$7.00
Meter Lock Damage	Actual
Meter Test Charge	\$35.00
Reconnection Charge	\$7.00
Returned Check Charge	\$0.00
Service Call	\$7.00
After Hours Reconnection Charge	\$103.00

5/8 Inch Water Tap On
All Larger than 5/8-inch Meters

\$1,350.00
Actual

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Kentucky Rural Water Association
Post Office Box 1424
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Bowling Green, KENTUCKY 42102-1424

*Ben Tooley
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