

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|  |            |
|--|------------|
| ELECTRONIC APPLICATION OF MUHLENBERG ) | CASE NO.   |
| COUNTY WATER DISTRICT FOR A RATE )     | 2024-00404 |
| ADJUSTMENT PURSUANT TO 807 KAR 5:076 ) |            |

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of January 31, 2025, the 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 31, 2025 Order, Muhlenberg County Water District (Muhlenberg District) 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 to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED     MAY 16 2025    

cc: Parties of Record

---

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

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                                      |   |            |
|--------------------------------------|---|------------|
| ELECTRONIC APPLICATION OF MUHLENBERG | ) | CASE NO.   |
| COUNTY WATER DISTRICT FOR A RATE     | ) | 2024-00404 |
| ADJUSTMENT PURSUANT TO 807 KAR 5:076 | ) |            |

COMMISSION STAFF'S REPORT  
ON MUHLENBERG COUNTY WATER DISTRICT

Muhlenberg County Water District (Muhlenberg District) 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 5,678 residential customers, 319 commercial customers, and 10 industrial customers that reside in Muhlenberg County, Kentucky.<sup>1</sup>

On January 10, 2025,<sup>2</sup> Muhlenberg District filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,<sup>3</sup> Muhlenberg District used the calendar year ended December 31, 2023, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2024-00213 which required Muhlenberg District to file an application for an adjustment of its base rates

---

<sup>1</sup> *Annual Report of Muhlenberg County Water District, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 12 and 49.

<sup>2</sup> Muhlenberg District tendered its application on January 8, 2025. By letter dated January 9, 2025, the Commission rejected the application for filing deficiencies. The Commission issued a deviation Order on January 22, 2025, and the application is deemed filed on January 10, 2025.

<sup>3</sup> The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

by October 31, 2025.<sup>4</sup> Muhlenberg District's last rate increase pursuant to the alternative rate filing procedure was in Case No. 2012-00009.<sup>5</sup> Since that matter, Muhlenberg District has only adjusted its rates pursuant to purchased water adjustments. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 31, 2025. Muhlenberg District responded to two requests for information from Commission Staff.<sup>6</sup>

### UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2023 Annual Report, Muhlenberg District reported a water loss of 17.5485 percent.<sup>7</sup> Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2023 total annual cost of water loss to Muhlenberg District is \$361,653, while the annual cost of water loss in excess of 15 percent is \$52,522.

---

<sup>4</sup> Case No. 2024-00213, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District*, (KY. PSC, Aug. 2, 2024), Order at 7, Ordering Paragraph 6.

<sup>5</sup> Case No. 2012-00009, *Alternative Rate Adjustment Filing of Muhlenberg County Water District*, (KY. PSC Apr. 30, 2012).

<sup>6</sup> Muhlenberg District's Response to Commission Staff's First Request for Information (Staff's First Request), (filed Mar. 10, 2025, Mar. 11, 2025, and Mar. 17, 2025). Muhlenberg District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Oct. 31, 2024).

<sup>7</sup> 2023 Annual Report at 57.

| Total Water Loss    | Purchased<br>Water | Purchased<br>Power | Chemicals       | Total             |
|---------------------|--------------------|--------------------|-----------------|-------------------|
| Pro Forma Purchases | \$ 1,941,668       | \$ 119,207         | \$ 7,609        | \$ 2,068,484      |
| Water Loss Percent  | 17.5485%           | 17.5485%           | 17.5485%        | 17.5485%          |
| Total Water Loss    | <u>\$ 340,734</u>  | <u>\$ 20,919</u>   | <u>\$ 1,335</u> | <u>\$ 361,653</u> |

| Disallowed Water Loss       | Purchased<br>Water | Purchased<br>Power | Chemicals     | Total            |
|-----------------------------|--------------------|--------------------|---------------|------------------|
| Pro Forma Purchases         | \$ 1,941,668       | \$ 119,207         | \$ 7,609      | \$ 2,060,875     |
| Water Loss in Excess of 15% | 2.5485%            | 2.5485%            | 2.5485%       | 2.5485%          |
| Disallowed Water Loss       | <u>\$ 49,484</u>   | <u>\$ 3,038</u>    | <u>\$ 194</u> | <u>\$ 52,522</u> |

### DISCUSSION

Using its pro forma test-year operations, Muhlenberg District determined that a base rate revenue increase of \$550,459 or 12.36 percent was necessary to achieve the revenue requirement as shown in the table below.<sup>8</sup> Muhlenberg District proposed utilizing the Operating Ratio Method, using an 86 percent conversion factor, to determine the revenue requirement.<sup>9</sup> The rate requested by Muhlenberg District would increase the residential monthly bill of a typical customer using 3,432 gallons per month by \$5.74, from \$46.48 to \$52.22, or approximately 12.36 percent.<sup>10</sup>

---

<sup>8</sup> Application, Attachment 4, Revenue Requirement Using Operating Ratio Method.

<sup>9</sup> Application, Attachment 4, Revenue Requirement Using Operating Ratio Method.

<sup>10</sup> Corrected Customer Notice, (filed Jan. 10, 2025), Corrected\_Customer\_Ntice.pdf.

| Description                             | Muhlenberg<br>County Water<br>District |
|---|--|
| Pro Forma Operating Expenses            | \$ 4,703,671                           |
| Divided by: Operating Ratio Percentage  | 86%                                    |
| Interest Expense                        | 12,788                                 |
| Overall Revenue Requirement             | 5,482,173                              |
| Other Operating Revenue ( )             | (468,577)                              |
| Interest Income ( )                     | (8,131)                                |
| Revenue Required from Rates             | 5,005,465                              |
| Revenue from Sales at Present Rates ( ) | (4,455,006)                            |
| Required Revenue Increase / (Decrease)  | \$ 550,459                             |
| Percentage Increase / (Decrease)        | 12.36%                                 |

To determine the reasonableness of the rates requested by Muhlenberg District, Commission Staff performed a limited review of Muhlenberg District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable<sup>11</sup> changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Muhlenberg District's Overall Revenue Requirement,

---

<sup>11</sup> Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

and Manuel Jerez Tamayo reviewed Muhlenberg District's reported revenues and rate design.

### SUMMARY OF RECOMMENDATIONS

1. Overall Revenue Requirement and Required Revenue Increase. As discussed in the Overall Revenue Requirement section below, an 88 percent operating ratio will allow Muhlenberg District necessary working capital and revenues to cover its reasonable operating expenses to operate and provide for reasonable equity growth. Therefore, by applying the Operating Ratio (OR) method, requested by Muhlenberg District, and as previously accepted by the Commission, Commission Staff found that Muhlenberg District's required revenue from water sales is \$5,288,495 to meet the Overall Revenue Requirement of \$5,436,930, and that an \$833,489 revenue increase, or 18.71 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. In its application, Muhlenberg District proposed to increase its monthly water service rates by 12.36 percent to all its water customers across the board.<sup>12</sup> Muhlenberg District stated that it did not file a cost-of-service study (COSS) at this time considering there has been no material changes in the water system that would cause a new COSS to be prepared.<sup>13</sup> The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the

---

<sup>12</sup> Application, Corrected\_Customer\_Notice.pdf,

<sup>13</sup> Muhlenberg District's Response to Staff's First Request, Item 21.

record demonstrating that this method is unreasonable and in the absence of a COSS.<sup>14</sup> Finding no such evidence in this case, Commission Staff allocated the \$833,490 revenue increase evenly across Muhlenberg District's monthly retail water service rates.

The rates recommended in Appendix B to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$5,288,495 revenue required from rates, an approximate 18.71 percent increase. The monthly water bill for a typical residential customer using approximately 3,432 gallons per month<sup>15</sup> will increase \$8.57 from \$46.48 to \$55.05, or approximately 18.44 percent.

3. Nonrecurring Charges. Following the Commission's recent decisions, Commission Staff reviewed Muhlenberg District's Nonrecurring Charges. The Commission has found that because district personnel are currently paid during normal business hours, estimated normal business hour labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges.<sup>16</sup> Muhlenberg District provided updated cost justification information for the

---

<sup>14</sup> Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

<sup>15</sup> Application, Corrected Customer Notice (the average retail customer uses 3,432 gallons per month).

<sup>16</sup> Case No. 2023-00299, *Electronic Application of Magoffin County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 24, 2024); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 5, 2024); Case No. 2023-00258, *Electronic Application of Kirksville Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00220, *Electronic Application of East Casey County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 21, 2024).

Nonrecurring Charges<sup>17</sup> as well as a list of the number of occurrences for each of its Nonrecurring Charges.<sup>18</sup> Commission Staff reviewed the cost justification information provided by Muhlenberg District and 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. Connection/Turn-on Charge increased \$37, from \$15 to \$52, due in part to an increase in transportation and other Miscellaneous expenses as shown in the cost justification provided.<sup>19</sup> Field Collection Charge and Service Call/Investigation both increased \$2, from \$35 to \$37, also due to the increase in transportation expense as shown in the cost justification provided.<sup>20</sup>

Commission Staff recommends that the Commission accept the respective adjustments and increases for the charges mentioned above, as these were supported by Muhlenberg District in the cost justification provided<sup>21</sup>, and the amounts meet the ratemaking criteria of being known and measurable. The cost justification information, shown in Appendix A, was provided by Muhlenberg District and supports Commission

---

<sup>17</sup> Muhlenberg District's Response to Staff's Second Request, Item 9, 9\_Nonrecurring\_Charges\_Cost\_Justifications.

<sup>18</sup> Muhlenberg District's Response to Staff's First Request, Item 25, 25\_Nonrecurring\_Charges.

<sup>19</sup> Muhlenberg District's Response to Staff's Second Request, Item 9, 9\_Nonrecurring\_Charges\_Cost\_Justifications at 1.

<sup>20</sup> Muhlenberg District's Response to Staff's Second Request, Item 9, 9\_Nonrecurring\_Charges\_Cost\_Justifications at 2 & 6.

<sup>21</sup> Muhlenberg District's Response to Staff's Second Request, Item 9, 9\_Nonrecurring\_Charges\_Cost\_Justifications.



Staff's adjustments to the Nonrecurring Charges. The adjustments discussed above result in the following revised Nonrecurring Charges:

| Nonrecurring Charges       | Current Charge | Revised Charge |
|----------------------------|----------------|----------------|
| Connection/Turn-on Charge  | \$ 15.00       | \$ 52.00       |
| Field Collection Charge    | \$ 35.00       | \$ 37.00       |
| Meter Relocation Charge    | Actual Cost    | Actual Cost    |
| Reconnection Charge        | \$ 50.00       | \$ 37.00       |
| Returned Check Charge      | \$ 25.00       | \$ 4.00        |
| Service Call/Investigation | \$ 35.00       | \$ 37.00       |
| Meter Test Request         | \$ 75.00       | \$ 38.00       |

The adjustments to the Nonrecurring Charges result in an increase in Miscellaneous Service Revenues of \$9,952 as shown below.

| Charge                          | Occurrences | Current Charge | Revised Charge | Adjustment     | Pro Forma       |
|---------------------------------|-------------|----------------|----------------|----------------|-----------------|
| Connection/Turn-on Charge       | 470         | \$15.00        | \$52.00        | \$17,390       | \$24,440        |
| Field Collection Charge         | 0           | \$35.00        | \$37.00        | 0              | 0               |
| Meter Relocation Charge         | 0           | Actual Cost    | Actual Cost    | 0              | 0               |
| Reconnection Charge             | 481         | \$50.00        | \$37.00        | (6,253)        | 17,797          |
| Returned Check Charge           | 57          | \$25.00        | \$4.00         | (1,197)        | 228             |
| Service Call/Investigation      | 6           | \$35.00        | \$37.00        | 12             | 222             |
| Meter Test Request              | 0           | \$75.00        | \$38.00        | 0              | 0               |
| Pro Forma Test Year NRC Revenue |             |                |                | <u>\$9,952</u> | <u>\$42,687</u> |
| Less: Test Year NRC Revenue ( ) |             |                |                |                | (32,735)        |
| Adjustment                      |             |                |                |                | <u>\$9,952</u>  |

Muhlenberg District provided an updated cost justification for its 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge.<sup>22</sup> Commission Staff reviewed the cost justification information provided by Muhlenberg District and noted it supports an increase in the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge. Commission Staff recommends that the Commission accept Muhlenberg District's supported increase for the Tap-On fee from

<sup>22</sup> Muhlenberg District's Response to Staff's Second Request, Item 10, 10\_Tap\_Fee\_Cost\_Jusitification.

\$570 to \$1,440 for the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge, as \$1,440 represents the actual costs associated with performing this service.

### PRO FORMA OPERATING STATEMENT

Muhlenberg District's Pro Forma Operating Statement for the 2023 test year ended December 31, 2023, as determined by Commission Staff appears in the table below.

| Description                                   | Test Year    | Muhlenberg District Proposed Adjustments | Commission Staff Adjustments | Total Adjustments | (Ref) | Pro Forma    |
|---|--------------|--|------------------------------|-------------------|-------|--------------|
| Operating Revenues                            |              |  |                              |                   |       |              |
| Metered Retail Sales                          | \$4,095,760  | \$ 359,246                               | \$ -                         | \$ 359,246        | (A)   | \$4,455,006  |
| Forfeited Discounts                           | 68,761       | -  | -                            | -                 |       | 68,761       |
| Miscellaneous Service Revenues                | 76,838       | -  | 9,952                        | 9,952             | (B1)  |              |
|   |              |  | (15,247)                     | (15,247)          | (B2)  | 71,543       |
| Total Operating Revenues                      | 4,241,359    | 359,246                                  | (5,295)                      | 353,951           |       | 4,595,310    |
| Operation and Maintenance                     |              |  |                              |                   |       |              |
| Salaries and Wages - Employees                | 956,992      | (38,555)                                 | 117,622                      | 79,067            | (C)   |              |
|   |              |  | (7,011)                      | (7,011)           | (D)   | 1,029,048    |
| Salaries and Wages - Officers                 | 18,000       | -  | -                            | -                 |       | 18,000       |
| Employee Benefits                             | 415,986      | (129,917)                                | 29,395                       | (100,522)         | (E)   | 315,464      |
| Employee Pensions                             | 129,182      | (47,141)                                 | 47,141                       | -                 | (F1)  |              |
|   |              | -  | 110,688                      | 110,688           | (F2)  |              |
|   |              | -  | (56,415)                     | (56,415)          | (F3)  |              |
|   |              | -  | (774)                        | (774)             | (F4)  | 182,681      |
| Purchased Water                               | 1,609,028    | 325,715                                  | 6,925                        | 332,640           | (G)   |              |
|   |              | (49,308)                                 | (176)                        | (49,484)          | (H)   | 1,892,184    |
| Purchased Power                               | 119,207      | (3,038)                                  | -                            | (3,038)           | (H)   | 116,169      |
| Chemicals                                     | 7,609        | (194)                                    | -                            | (194)             | (H)   | 7,415        |
| Materials and Supplies                        | 191,565      | 159,751                                  | (159,751)                    | -                 | (I)   |              |
|   |              | -  | (16,359)                     | (16,359)          | (D)   | 175,206      |
| Contractual Services                          | 96,736       | 13,110                                   | (822)                        | 12,288            | (J)   | 109,024      |
| Rental of Building/ Real Property             | 2,511        | -  | -                            | -                 |       | 2,511        |
| Transportation Expense                        | 72,286       | -  | -                            | -                 |       | 72,286       |
| Insurance - General Liability & Workers Comp. | 16,471       | -  | -                            | -                 |       | 16,471       |
| Insurance - Other                             | 60,480       | -  | -                            | -                 |       | 60,480       |
| Advertising                                   | 2,604        | -  | -                            | -                 |       | 2,604        |
| Water Resource Conservation Expense           | 24,800       | -  | -                            | -                 |       | 24,800       |
| Miscellaneous                                 | 185,161      | -  | -                            | -                 |       | 185,161      |
| Total   | 3,908,618    | 230,423                                  | 70,463                       | 300,886           |       | 4,209,504    |
| Depreciation Expense                          | 523,144      | (37,110)                                 | (19,460)                     | (56,570)          | (K)   |              |
|   |              | -  | 550                          | 550               | (L)   | 467,124      |
| Amortization Expense                          | -            | 8,335                                    | 702                          | 9,037             | (M)   | 9,037        |
| Taxes Other Than Income                       | 80,633       | (10,373)                                 | 17,432                       | 7,059             | (N)   | 87,692       |
| Total Operating Expenses                      | 4,512,395    | 191,275                                  | 69,687                       | 260,962           |       | 4,773,357    |
| Net Operating Income                          | (271,036)    | 167,971                                  | (74,982)                     | 92,989            |       | (178,047)    |
| Interest Income                               | 8,131        | -  | -                            | -                 |       | 8,131        |
| Income Available to Service Debt              | \$ (262,905) | \$ 167,971                               | \$ (74,982)                  | \$ 92,989         |       | \$ (169,916) |

(A) Total Sales of Water. Muhlenberg District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application.<sup>23</sup> Muhlenberg District reported total metered water sales revenue of \$4,095,760 for the test year in its Schedule of Adjusted Operations.<sup>24</sup> Muhlenberg District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$4,455,006 and proposed an adjustment to increase test-year water sales revenue by \$359,246 to reflect the revenues of \$325,715 from the recent purchased water adjustment<sup>25</sup> and \$33,531 in other adjustments based on current water rates.<sup>26</sup> Commission Staff recommends that the Commission accept the adjustment because the amount is known and measurable.

(B) Miscellaneous Service Revenues. In the application, Muhlenberg District reported \$76,838 for Miscellaneous Service Revenues.<sup>27</sup> Miscellaneous Service Revenues include Materials, Pipe, Parts Sold, Miscellaneous Revenues, 911 Surcharges, and Cash/Over which is unpaid credit card transactions.<sup>28</sup> A summary of miscellaneous service revenues by component and the related adjustments is presented in the table that follows the explanation of adjustments below.

---

<sup>23</sup> Application, ARF\_Application.pdf, Attachment 5, Current Billing Analysis – Current Usage & Existing Rates.

<sup>24</sup> Application, ARF\_Application.pdf, Attachment 4, Statement of Adjusted Operations.

<sup>25</sup> Case No. 2024-00213, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District* (Ky. PSC, Aug. 2, 2024).

<sup>26</sup> Application, ARF\_Application.pdf, Attachment 5, Current Billing Analysis – Current Usage & Existing Rates.

<sup>27</sup> Application, ARF\_Application.pdf, Attachment 4, Statement of Adjusted Operations.

<sup>28</sup> Muhlenberg District's Response to Staff's First Request, Item 1c, Item\_1c\_Cross\_Reference.xlsx, Rows 17 thru 24.

*Nonrecurring Charges* - As discussed in the non-recurring charges section of the Summary of Recommendations above, Commission Staff removed normal business hour field labor and office/clerical labor costs<sup>29</sup> and determined that pro forma non-recurring charges should be \$42,687. The adjustment to non-recurring charges, results in an increase of \$9,952 (B1) to Miscellaneous Service Revenues. Commission Staff recommends the Commission accept Commission Staff's adjustment to Miscellaneous Service Revenues because the amount meets the ratemaking criteria of being known and measurable.

*Nonrecurring Revenues* –Miscellaneous Service Revenue components of \$1,607 for Material, Pipes, parts Sold<sup>30</sup> and \$13,640 for Cash/Over,<sup>31</sup> which are unpaid credit card transactions are considered unusual transactions not expected to reoccur and, therefore, should be removed from the test year. Commission Staff recommends the Commission accept Commission Staff's adjustment to decrease Miscellaneous Service Revenues by \$15,247 (B2). The net effect of the above adjustments results in a pro forma Miscellaneous Service Revenues of \$71,543, as shown in the following table, which is a net decrease of \$5,295 from Muhlenberg District's proposed pro forma amount.

---

<sup>29</sup> Case No. 2023-00299, *Electronic Application of Magoffin County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 24, 2024); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 5, 2024); Case No. 2023-00258, *Electronic Application of Kirksville Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00220, *Electronic Application of East Casey County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 21, 2024).

<sup>30</sup> Muhlenberg District's Response to Staff's First Request, Item 1c, Item\_1c\_Cross\_Reference.xlsx, Rows 19.

<sup>31</sup> Muhlenberg District's Response to Staff's First Request, Item 1c, Item\_1c\_Cross\_Reference.xlsx, Rows 21.

| Description                   | Test Year | Commission Staff |           | Pro Forma |
|-------------------------------|-----------|------------------|-----------|-----------|
|                               |           | Adjustment       |           |           |
| Non-Recurring Charges         | \$ 32,735 | \$ 9,952         | \$ 42,687 |           |
| Credit Card Processing Income | 21,678    |                  | 21,678    |           |
| Materials, Pipes, Parts Sold  | 1,607     | (1,607)          | 0         |           |
| Miscellaneous                 | 3,513     |                  | 3,513     |           |
| Cash/Over                     | 13,640    | (13,640)         | (0)       |           |
| 911 Fee                       | 3,666     |                  | 3,666     |           |
| Total                         | \$ 76,838 | \$ (5,295)       | \$ 71,543 |           |

(C) Salaries and Wages - Employees. In its application, Muhlenberg District proposed an adjustment to decrease Salaries and Wages – Employees by \$38,555<sup>32</sup> to reflect changes in wage rates.<sup>33</sup> Muhlenberg District provided the test year employee list,<sup>34</sup> test year total hours worked,<sup>35</sup> current wage rates,<sup>36</sup> and a current employee list.<sup>37</sup> Muhlenberg District considers full employment as 14 full time employees and 3 part-time/seasonal employees.<sup>38</sup> Commission Staff normalized the full time employees' regular hours to 2,080.<sup>39</sup> In addition, employees received an increase in wages during

<sup>32</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

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

<sup>34</sup> Muhlenberg District's Response to Staff's First Request, Item 6, 6\_Employee\_Hours\_Wages\_and\_Benefits.xlsx, 2023 Tab, Column A.

<sup>35</sup> Muhlenberg District's Response to Staff's First Request, Item 6, 6\_Employee\_Hours\_Wages\_and\_Benefits.xlsx, 2023 Tab,

<sup>36</sup> Muhlenberg District's Response to Staff's Second Request, Item 3a, 3a\_Positions\_Titles\_and\_Pay.xlsx.

<sup>37</sup> Muhlenberg District's Response to Staff's Second Request, Item 3a, 3a\_Positions\_Titles\_and\_Pay.xlsx.

<sup>38</sup> Muhlenberg District's Response to Staff's Second Request, Item 3c.

<sup>39</sup> 8 hours a day x 5 days a week x 52 weeks a year = 2,080 hours a year.

2024 and 2025.<sup>40</sup> Currently the three part-time/seasonal positions are vacant, Muhlenberg District's intent is to rehire these positions as soon as the district gets approved for a rate increase.<sup>41</sup> The seasonal employees work for nine months a year; therefore, Commission Staff normalized their hours worked at 1,560.<sup>42</sup> The housekeeping position works ten hours a week for a normalized 520 hours annually.<sup>43</sup>

Additionally, Muhlenberg District provides several other methods to compensate employees aside from Salaries and Wages. First, Muhlenberg District provides an annual boot allowance of \$150 paid at the beginning of each year so that employees can purchase a new pair of boots each year.<sup>44</sup> Since the boot allowance is to compensate employees for the purchase of boots, Commission Staff agrees with including the boot allowance in Pro-Forma Salaries and Wages – Employees. Next, Muhlenberg District provided an excerpt from its employee handbook explaining that “at the end of each quarter if there have been no accidents each employee will be paid a safety bonus of \$150.”<sup>45</sup> Since the bonus is performance based relying on safety records, Commission Staff agrees with including the Safety Bonus in Pro-Forma Salaries and Wages – Employees. Additionally, Muhlenberg District provides a truck allowance, which is \$15

---

<sup>40</sup> Muhlenberg District's Response to Staff's Second Request, Item 3a, 3a\_Positions\_Titles\_and\_Pay.xlsx.

<sup>41</sup> Muhlenberg District's Response to Staff's Second Request, Item 3b.

<sup>42</sup>  $2,080 \text{ full-time annual Hours} \times (9/12) = 1,560 \text{ Hours}$ .

<sup>43</sup> Muhlenberg District's Response to Staff's Second Request, Item 3b.

<sup>44</sup> Muhlenberg District's Response to Staff's Second Request, Item 2a.

<sup>45</sup> Muhlenberg District's Response to Staff's Second Request, Item 2a, 2a\_Safety\_Bonus.pdf.

per week for the use of personal vehicles by field employees subject to being on-call.<sup>46</sup> During the test year, the truck allowance was expanded to include all field employees subject to being on call.<sup>47</sup> Commission Staff agrees with including the truck allowance for on-call employees in Pro-Forma Salaries and Wages – Employees. Muhlenberg District also provides a Sample Testing pay. Sample testing pay is paid to the two superintendents every weekend day and holiday.<sup>48</sup> Since sample testing is mandatory from the Division of Water and specific site must be tested for chlorine residual daily, even the weekends and holidays, the Superintendents are performing work during their days off when they must test for chlorine on these days.<sup>49</sup> Commission Staff agrees with including the sample testing pay as a direct form of compensation. Muhlenberg District also provides on-call pay to field employees.<sup>50</sup> One worker takes the on-call phone each week and answers emergency call after hours.<sup>51</sup> In addition, the General Manager and Superintendent are considered to always be on call.<sup>52</sup> Since the on-call pay is

---

<sup>46</sup> Additional information on Truck Allowance included in wages (filed Apr. 16, 2025), Read\_First\_Additional\_Information\_Truck-Allowance.pdf.

<sup>47</sup> Additional information on Truck Allowance included in wages (filed Apr. 16, 2025), Read\_First\_Additional\_Information\_Truck-Allowance.pdf.

<sup>48</sup> Muhlenberg District's Response to Staff's Second Request, Item 2d, 2d\_Sample\_Testing\_Pay.pdf.

<sup>49</sup> Muhlenberg District's Response to Staff's Second Request, Item 2d, 2d\_Sample\_Testing\_Pay.pdf.

<sup>50</sup> Muhlenberg District's Response to Staff's Second Request, Item 2c.

<sup>51</sup> Muhlenberg District's Response to Staff's Second Request, Item 2c, 2c\_Employee\_Handbook\_Extact\_On\_Call\_Pay.pdf.

<sup>52</sup> Muhlenberg District's Response to Staff's Second Request, Item 2c, 2c\_Employee\_Handbook\_Extact\_On\_Call\_Pay.pdf.

compensation for an employee to be available to work in case of emergencies, Commission Staff agrees with including the on-call pay as a direct form of compensation.

With all the compensation forms described above, Commission Staff calculated a Total Salaries and Wages – Employees of \$1,036,059, which is \$79,067 more than the test year Salaries and Wages – Employee of \$956,992, as shown in the table below.

| Employee #  | Employee Position    | Normalized<br>Regular Hours | Pro Forma<br>Wage Rate | Pro Forma<br>Reg. Wages | Pro Forma<br>O. T. Hours | Pro Forma<br>O. T. Wages | Boot<br>Allowance | Safety<br>Bonus | Truck<br>Allowance | Sample<br>Testing | On Call<br>Pay | Pro Forma<br>Wages     |
|---|----------------------|-----------------------------|------------------------|-------------------------|--------------------------|--------------------------|-------------------|-----------------|--------------------|-------------------|----------------|------------------------|
| Employee 1  | General Manager      | 2,080                       | \$1,524/ Week          | \$ 79,248               | \$ 216                   | -                        | \$ 173.71         | \$ 695          | \$ 780             |                   | \$ 520         | \$ 81,417.00           |
| Employee 2  | Superintendent       | 2,080                       | 1,366/ Week            | 71,011                  | 458                      | -                        | 174               | 695             | 780                | \$ 7,050          | 4,240          | 83,950                 |
| Employee 3  | Asst. Superintendent | 2,080                       | 1,388/ Week            | 72,155                  | 502                      | -                        | 174               | 695             | 780                | 7,050             | 4,240          | 85,094                 |
| Employee 4  | Maintenance Foreman  | 2,080                       | 29.18                  | 60,694                  | 200                      | \$ 8,754                 | 174               | 695             | 780                | -                 | 1,800          | 72,897                 |
| Employee 5  | Telemetry            | 2,080                       | 27.73                  | 57,678                  | 223                      | 9,276                    | 174               | 695             | 780                | -                 | 3,020          | 71,623                 |
| Employee 6  | OPERATIONS           | 2,080                       | 27.17                  | 56,514                  | 168                      | 6,847                    | 174               | 695             | 780                | -                 | 1,320          | 66,329                 |
| Employee 7  | OPERATIONS           | 2,080                       | 27.10                  | 56,368                  | 149                      | 6,057                    | 174               | 695             | 780                | -                 | 1,640          | 65,713                 |
| Employee 8  | OPERATIONS           | 2,080                       | 26.29                  | 54,683                  | -                        | -                        | 174               | 695             | 780                | -                 | 1,380          | 57,712                 |
| Employee 9  | OPERATIONS           | 2,080                       | 26.29                  | 54,683                  | 291                      | 11,476                   | 174               | 695             | 780                | -                 | 1,700          | 69,507                 |
| Employee 10   | OPERATIONS           | 2,080                       | 26.29                  | 54,683                  | 223                      | 8,794                    | 174               | 695             | 780                | -                 | 1,380          | 66,506                 |
| Employee 11   | Office Manager       | 2,080                       | 27.16                  | 56,493                  | 207                      | 8,433                    | -                 | 695             | -                  | -                 | -              | 65,621                 |
| Employee 12   | Asst Office Manager  | 2,080                       | 25.80                  | 53,664                  | -                        | -                        | -                 | 695             | -                  | -                 | -              | 54,359                 |
| Employee 13   | Clerical             | 2,080                       | 25.00                  | 52,000                  | 115                      | 4,313                    | 174               | 695             | -                  | -                 | -              | 57,181                 |
| Employee 14   | Clerical             | 2,080                       | 25.00                  | 52,000                  | 58                       | 2,175                    | 174               | 695             | -                  | -                 | -              | 55,044                 |
| Employee 15   | 10 hrs/week          | 520                         | 17.08                  | 8,882                   | -                        | -                        | -                 | -               | -                  | -                 | -              | 8,882                  |
| Employee 16   | 9 months a year      | 1,560                       | 23.79                  | 37,112                  | -                        | -                        | -                 | -               | -                  | -                 | -              | 37,112                 |
| Employee 17   | 9 months a year      | 1,560                       | 23.79                  | 37,112                  | -                        | -                        | -                 | -               | -                  | -                 | -              | 37,112                 |
| Total   |                      | 32,760                      |                        | \$ 914,982              | \$ 2,810                 | \$ 66,124                | \$ 2,085          | \$9,728         | \$ 7,800           | \$ 14,100         | \$ 21,240      | 1,036,059<br>(956,992) |
| Test Year Salaries and Wages - Employees ( )                                |                      |                             |                        |                         |                          |                          |                   |                 |                    |                   |                |                        |
| Commission Staff's Adjustment   |                      |                             |                        |                         |                          |                          |                   |                 |                    |                   |                | 79,067                 |
| Muhlenberg District's Adjustment  |                      |                             |                        |                         |                          |                          |                   |                 |                    |                   |                | 38,555                 |
| Difference between Muhlenberg District's and Commission Staff's Adjustments |                      |                             |                        |                         |                          |                          |                   |                 |                    |                   |                | <u>\$ 117,622</u>      |

Commission Staff recommends the Commission accept Commission Staff's adjustment of a \$79,067 increase to Salaries and Wages – Employees, as it is known and measurable change because it reflects the normalized and test year hours at current wage rates with current employees.

(D) Expenses Related to Meter Installations. During the test year, Muhlenberg District reported \$24,700 to Tap On Fees.<sup>53</sup> The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in

<sup>53</sup> Muhlenberg District's Response to Staff's First Request, Item 1b, 1b\_Trial\_Balance\_2023.xlsx, Account 474-01 Tap On Fees.



Service and depreciated over their estimated useful lives.<sup>54</sup> During the test year, Muhlenberg District installed 41 new water connections.<sup>55</sup> Using the current rate of \$570 per connection, Commission Staff calculated \$23,370 of Tap Fees expenses to be capitalized. Therefore, Commission Staff calculated a decrease to Salaries and Wages – Employees Expense of \$7,011 and Materials and Supplies of \$16,359, as shown in the following table.

| Description                   | Salaries and Wages | Materials and Supplies |
|-------------------------------|--------------------|------------------------|
| Tap Fees Collected            | \$ 23,370          | \$ 23,370              |
| Allocated Percentage          | 30%                | 70%                    |
| Commission Staff's Adjustment | <u>\$ (7,011)</u>  | <u>\$ (16,359)</u>     |

Additionally, Muhlenberg District confirmed that it did not capitalize the water tap labor or the Material costs.<sup>56</sup> Therefore, Commission Staff capitalized the labor, materials and supplies costs, and made a corresponding increase to test-year depreciation of \$550, as shown in Adjustment (L).

Commission Staff recommends the Commission accept Muhlenberg District's proposed adjustments to decrease Salaries and Wages – Employees by \$7,011 and decrease Materials and Supplies by \$16,359 because it reflects the proper accounting for water connection expenses according to the USoA.

---

<sup>54</sup> USoA, Accounting Instruction 19 and 33.

<sup>55</sup> Muhlenberg District's Response to Staff's First Request, Item 18a.

<sup>56</sup> Muhlenberg District's Response to Staff's First Request, Item 18b and 18c.

(E) Employee Benefits. In its application, Muhlenberg District proposed an adjustment to decrease Employee Pensions and Benefits by \$129,917<sup>57</sup> to reflect current Commission precedent regarding employee medical and dental insurance benefits.<sup>58</sup> Muhlenberg District provided complete health benefits to all employees, at no cost to the employee, for the test year with Anthem.<sup>59</sup> In addition, Muhlenberg District provided full vision through Anthem and dental through Paramount Dental with no charge to the employee.<sup>60</sup> The Commission continues to place greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate.

The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.<sup>61</sup> Consistent with precedent,<sup>62</sup> Commission Staff agrees with Muhlenberg District's methodology but calculated a different amount. In the application, Muhlenberg District utilized the contribution levels recommended in 2022

---

<sup>57</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

<sup>58</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment C.

<sup>59</sup> Muhlenberg District's Response to Staff's First Request, Item 4.

<sup>60</sup> Muhlenberg District's Response to Staff's First Request, Item 4.

<sup>61</sup> Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

<sup>62</sup> Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019), Order at 8–12.

contribution analysis for single<sup>63</sup> and family<sup>64</sup>, rather the most recent 2024 contribution levels. Commission Staff calculated Muhlenberg District's Employer contribution for single health insurance plan premiums contribution expense at 80 percent,<sup>65</sup> and family insurance plan premiums contribution expense at 68 percent,<sup>66</sup> as shown in the table below. In addition, Commission Staff calculated Muhlenberg District's contribution to dental insurance at 60 percent.<sup>67</sup> Muhlenberg District provided the most recent copy of its health insurance,<sup>68</sup> dental Insurance,<sup>69</sup> and life insurance<sup>70</sup> invoices. The invoices show 14 employees currently receive insurance through Muhlenberg District.<sup>71</sup> Accordingly, utilizing the most recent invoice amounts, Commission Staff calculated a decreased to Employee Benefits - Insurance of \$100,522, which is \$29,395 less than the \$129,917 decrease proposed by Muhlenberg District, as shown below.

---

<sup>63</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2022, Table 3, private industry workers. ([Employee Benefits in the United States - March 2022](#)).

<sup>64</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2022, Table 4, private industry workers. ([Employee Benefits in the United States - March 2022](#)).

<sup>65</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>66</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>67</sup> See Case No. 2017-00263 Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment (Ky. PSC Dec. 22, 2017), at 9-10, and The Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

<sup>68</sup> Muhlenberg District's Response to Staff's First Request, Item 5, 5\_Medical.pdf.

<sup>69</sup> Muhlenberg District's Response to Staff's First Request, Item 5, 5\_Dental.pdf.

<sup>70</sup> Muhlenberg District's Response to Staff's First Request, Item 5, 5\_Life.pdf.

<sup>71</sup> Muhlenberg District's Response to Staff's First Request, Item 5, 5\_Medical.pdf.

| Type of Premium   | Number of Employees | Employer Contributions | Average Employee Contribution Rate | Monthly Premium Adjustment | Pro Forma Monthly Premium |
|---|---------------------|------------------------|------------------------------------|----------------------------|---------------------------|
| Medical Insurance - Employee Only   | 1                   | \$ 1,045               | 20%                                | \$ (209)                   | \$ 836                    |
| Medical Insurance - Employee Spouse   | 2                   | 4,389                  | 32%                                | (1,404)                    | 2,984                     |
| Medical Insurance - Employee Child  | 2                   | 3,762                  | 32%                                | (1,204)                    | 2,558                     |
| Medical Insurance - Family  | 9                   | 27,272                 | 32%                                | (8,727)                    | 18,545                    |
| Dental Insurance  | 14                  | 1,316                  | 60%                                | (789)                      | 526                       |
| Life Insurance  | 14                  | 839                    | 0%                                 | -                          | 839                       |
| Total Monthly Pro Forma Premium   |                     | 38,622                 |                                    | (12,333)                   | 26,289                    |
| Multiplied by: 12 Months  |                     | 12                     |                                    | 12                         | 12                        |
| Total Annual Health Insurance Premium                                       |                     | <u>\$ 463,466</u>      |                                    | <u>(148,001)</u>           | 315,464                   |
| Less: Test Year Insurance Premium ( )                                       |                     |                        |                                    |                            | (415,986)                 |
| Commission Staff's Proposed Adjustment                                      |                     |                        |                                    |                            | (100,522)                 |
| Less: Muhlenberg District's Proposed Adjustment ( )                         |                     |                        |                                    |                            | 129,917                   |
| Difference between Muhlenberg District's and Commission Staff's Adjustments |                     |                        |                                    |                            | <u>\$ 29,395</u>          |

Commission Staff recommends the Commission accept Commission Staff's adjustment of a \$100,522 decrease to Employee Benefits to reflect the change in insurance premiums and the reduction of employer contributions. The adjustment reflects the average amount based on national statistical information.<sup>72</sup> as well as the fact that the case record does not contain sufficient evidence that 100 percent employer contribution was necessary to retain employees or normal for employers in the area.

(F) Employee Pensions (CERS). Muhlenberg District participates in the County Employee Retirement System (CERS),<sup>73</sup> which is managed by the Kentucky Public Pension Authority (KPPA). Muhlenberg District proposed one decrease to Employee Pensions and Benefits to reflect the reduced pension contribution rate that took effect on

<sup>72</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2022, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>). Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>). And the Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

<sup>73</sup> Muhlenberg District's Response to Staff's First Request, Item 5, 5\_Retirement.pdf.

July 1, 2024, of 19.71 percent, in the amount of \$47,141 (F1).<sup>74</sup> Commission Staff calculated three adjustments based on the calculation of the pro forma Salaries and Wages – Employees as well as contribution percentage, and GASB 68 and 75 accounting.

First, Commission Staff calculated an increase of \$110,668 (F2) for Pension and Other Post Employment Benefits (OPEB) related to GASB 68 and GASB 75 from Muhlenberg District's test year amount. In Case No. 2016-00163,<sup>75</sup> Commission Staff discussed how reporting requirements for GASB 68 would affect a utility's income statement and balance sheet. In that proceeding, the Commission found that the annual pension expense should be equal to the amount of a district's contributions to CERS. Consistent with Commission precedent,<sup>76</sup> Commission Staff added \$110,688 (F2) as an adjustment related to GASB 68 as well as GASB 75, which did not become effective until after GASB 68.

Commission Staff made a decrease of \$56,415 (F3) to account for the reduction in the CERS contribution rate from the test year.<sup>77</sup> The decrease in contributable wages resulted in a decrease of \$774 (F4) for Muhlenberg District's CERS expense. The above adjustments result in a pro forma amount of \$182,681, as shown in the table below. Commission Staff recommends the Commission accept Commission Staff's proposed

---

<sup>74</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment D.

<sup>75</sup> Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11–15.

<sup>76</sup> Case No. 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 13, 2022), Order at 11–12.

<sup>77</sup> CERS Board of Trustees December 4, 2023, Meeting, Minutes, Page 2. CERS Contribution Rate in test year was 26.79, and 19.71 in current year.

adjustments as the amounts are known and measurable based on current Salaries and Wages at current contribution levels.

| Description                              | Pro Forma  |
|--|------------|
| Wages Applicable to CERS Payments        | \$ 952,953 |
| Multiplied by: Average Contribution Rate | 19.17%     |
| Total Pension Contribution Contributions | 182,681    |

(G) Purchased Water. In its application, Muhlenberg District proposed an adjustment to increase its Purchased Water Expense by \$325,715<sup>78</sup> to reflect the recent purchased water adjustment.<sup>79</sup> Muhlenberg District purchases water from Todd County Water District (Todd District) and the City of Central City (Central City).<sup>80</sup> Subsequent to the test year, Muhlenberg District filed a Purchased Water Adjustment, effective July 1, 2024 to reflect Central City increasing its wholesale rate to Muhlenberg District to \$0.00457 per gallon.<sup>81</sup> Todd District also received an increase in its wholesale rates, increasing Muhlenberg District's cost of water to \$.00591 per gallon.<sup>82</sup> Muhlenberg District provided the current rate charged by each of its water vendors,<sup>83</sup> as well as the gallons purchased from each vendor throughout the test year.<sup>84</sup> Commission Staff calculated Purchased Water Expense using the test-year gallons purchased, and the

---

<sup>78</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

<sup>79</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment F.

<sup>80</sup> 2023 Annual report at 54.

<sup>81</sup> Case No, 2024-00213, Application, Exhibit A, Notice.

<sup>82</sup> Case No. 2025-00004, *Electronic Purchased Water Adjustment Filing of Todd County Water District*, (KY. PSC, Feb. 13, 2025).

<sup>83</sup> Muhlenberg District's Response to Staff's First Request, Item 20.

<sup>84</sup> Muhlenberg District's Response to Staff's First Request, Item 19, 19\_Water\_Purchased\_Corrected.xlsx.

current rates resulting in a pro forma Purchased Water Expense of \$1,941,668, as shown in the following table. Commission Staff calculated an increase to Purchased Water Expense of \$332,640, which is \$6,925 more than proposed by Muhlenberg District.

| Month  | Todd County      |            | Central City       |            | Total           |
|--|------------------|------------|--------------------|------------|-----------------|
|  | Gallons          | Cost       | Gallons            | Cost       |                 |
| January  | \$ 228,600       | \$ 0.00591 | \$ 35,565,300      | \$ 0.00457 | \$ 163,884      |
| February   | 180,400          | 0.00591    | 38,120,800         | 0.00457    | 175,278         |
| March  | 219,700          | 0.00591    | 32,163,900         | 0.00457    | 148,287         |
| April  | 197,700          | 0.00591    | 35,016,990         | 0.00457    | 161,196         |
| May  | 275,100          | 0.00591    | 31,032,300         | 0.00457    | 143,443         |
| June   | 146,200          | 0.00591    | 38,079,100         | 0.00457    | 174,886         |
| July   | 286,500          | 0.00591    | 37,350,300         | 0.00457    | 172,384         |
| August   | 283,600          | 0.00591    | 37,207,900         | 0.00457    | 171,716         |
| September  | 235,400          | 0.00591    | 34,785,300         | 0.00457    | 160,360         |
| October  | 207,000          | 0.00591    | 32,573,000         | 0.00457    | 150,082         |
| November   | 176,200          | 0.00591    | 36,237,400         | 0.00457    | 166,646         |
| December   | 360,800          | 0.00591    | 33,122,900         | 0.00457    | 153,504         |
| Total  | <u>2,797,200</u> |            | <u>421,255,190</u> |            | 1,941,668       |
| Less Test Year Purchased Water ( )   |                  |            |                    |            | (1,609,028)     |
| Commission Staff's Adjustment  |                  |            |                    |            | 332,640         |
| Less: Muhlenberg District's Proposed Adjustment ( )                        |                  |            |                    |            | (325,715)       |
| Difference between Muhlenberg District's and Commission Staff's Adjustment |                  |            |                    |            | <u>\$ 6,925</u> |

Commission Staff recommends the Commission accept Commission Staff's adjustment of a \$332,640 increase to Purchase Water Expense as this is a known and measurable change that reflects the normalization of water purchased during the test year to current rates charged.

(H) Excess Water Loss. In its application, Muhlenberg District proposed adjustments to decrease Purchased Water Expense by \$49,308,<sup>85</sup> Purchased Power Expense by \$3,038<sup>86</sup> and Chemicals Expense by \$194.<sup>87</sup> The adjustments are to reflect

<sup>85</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

<sup>86</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

<sup>87</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

the expense for water loss in excess of 15 percent.<sup>88</sup> During the test year, Muhlenberg District reported water loss of 17.5485 percent.<sup>89</sup> As noted earlier in the report, Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included for ratemaking purposes.<sup>90</sup> Muhlenberg District proposed to reduce Purchased Water Expense by \$49,308 and Commission Staff disagreed with the calculation, as discussed in the Purchased Water Expense adjustment (G). Commission Staff determined a Purchased Water Expense of \$1,941,668. Therefore, Commission Staff decreased Purchased Water Expense by \$49,484, which is \$176 more than proposed by Muhlenberg District, as shown in the following table. Additionally, Muhlenberg District proposed to reduce Purchased Power Expense by \$3,038 and Chemical Expense by \$194, which Commission Staff agrees with both adjustments, as shown in following table.

| Description   | Purchased Water | Purchased Power | Chemicals | Total        |
|---|-----------------|-----------------|-----------|--------------|
| Adjusted Costs  | \$ 1,941,668    | \$ 119,207      | \$ 7,609  | \$ 2,068,484 |
| Water Loss in Excess of 15% ( )   | -2.5485%        | -2.5485%        | -2.5485%  | -2.5485%     |
| Commission Staff's Adjustment   | (49,484)        | (3,038)         | (194)     | (52,716)     |
| Muhlenberg District's Proposed Adjustment                                   | 49,308          | 3,038           | 194       | 52,540       |
| Difference between Muhlenberg District's and Commission Staff's Adjustments | \$ (176)        | \$ -            | \$ -      | \$ (176)     |

<sup>88</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment G.

<sup>89</sup> 2023 Annual Water Report at 57.

<sup>90</sup> Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).



Commission Staff recommends the Commission accept Commission Staff's adjustment of a \$49,484 decrease to Purchase Water Expense, as well as Muhlenberg District's proposed adjustment of a \$3,038 decrease to Purchased Power Expense, and a \$194 decrease to Chemical Expense, since the amounts reflect the limit of costs related to excess water loss to 15 percent.

(I) Materials and Supplies. In its application, Muhlenberg District proposed an adjustment to increase Materials and Supplies expense by \$159,751<sup>91</sup> reflecting a substantial increase in Materials and Supplies expense.<sup>92</sup> Muhlenberg District calculated the increase by totaling the June 2023 year to date and the June 2024 year to date total for Maintenance of Mains and Maintenance of Meters, then multiplying the difference by two to determine a full year difference compared to the test year.<sup>93</sup>

Commission Staff disagrees with Muhlenberg District's methodology. The proposed approach shows a mid-year to mid-year comparison of accounting activity without consideration of year-end adjustments for changes in materials inventory or capitalization of items to fixed assets that were initially recorded as expense during the year. Both 2023<sup>94</sup> and 2024<sup>95</sup> reflect large year-end adjustments that reduce spending that occurred throughout the year. In addition, system performance may be a more

---

<sup>91</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

<sup>92</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment H.

<sup>93</sup> Muhlenberg District's Response to Staff's First Request, Item 1d, 1d\_Rate\_Study.xlsx, Materials and Supplies Tab.

<sup>94</sup> Muhlenberg District's Response to Staff's First Request, Item 1a, 1a\_General\_Ledger\_2023.xlsx. Account 00636-0006 Maintenance of Mains

<sup>95</sup> Muhlenberg District's Response to Staff's First Request, Item 1a, 1a\_General\_Ledger\_2024.xlsx. Account 00636-0006 Maintenance of Mains

significant cost driver in one-year verses another and not inflation. A simple comparison of two periods does not establish an inflationary or ongoing performance conclusion.

Commission Staff compared the full year trial balance amounts for all materials and supplies sub-accounts during 2023<sup>96</sup> and 2024.<sup>97</sup> This comparison reflects a decrease in the total from \$191,565 in 2023 to \$148,981 in 2024, as shown in the table below.

| Materials and Supplies Accounts        | 2023              | 2024              | Difference        |
|--|-------------------|-------------------|-------------------|
| 620-08 Materials & Supplies AD&G       | \$ 7,818          | \$ 4,686          | \$ (3,132)        |
| 620-01 Pump Station Operation Supplies | 194               | 129               | (65)              |
| 620-02 Operation Supplies & Exp        | 16,147            | 16,917            | 770               |
| 636-02 Equip Maint & Repairs           | 14,819            | 8,548             | (6,271)           |
| 635-05 Main Dist Reser & Standpipe     | 7,699             | 578               | (7,121)           |
| 636-06 Maintenance of Mains            | 91,010            | 74,908            | (16,102)          |
| 637-06 Maintenance of Meters           | 29,251            | 34,137            | 4,886             |
| 636-01 Maint of Pumping Equip          | 24,627            | 9,078             | (15,549)          |
| Total Materials and Supplies           | <u>\$ 191,565</u> | <u>\$ 148,981</u> | <u>\$(42,584)</u> |

Commission Staff recommends the Commission reject Muhlenberg District's adjustment of a \$159,751 increase to Materials and Supplies Expense, since the calculation methodology does not reflect consideration of year end accounting adjustment impact. Commission Staff recommends the Commission authorize the test year amount of 191,565 with no adjustments for an increase in materials and supplies expenses as spending will vary from year to year.

---

<sup>96</sup> Muhlenberg District's Response to Staff's First Request, Item 1a, 1a\_General\_Ledger\_2023.xls, Column F.

<sup>97</sup> Muhlenberg District's Response to Staff's First Request, Item 1a, 1a\_General\_Ledger\_2024.xls, Column F.

(J) Contractual Services. In its application, Muhlenberg District proposed an adjustment to increase Contractual Services by \$13,110<sup>98</sup> to reflect an additional annual maintenance fee for billing software.<sup>99</sup> Muhlenberg supplied a copy of the signed contract,<sup>100</sup> and the contract identified a monthly payment of \$1,024.<sup>101</sup> Muhlenberg District stated that the fee is \$12,888 yearly.<sup>102</sup> Commission Staff calculated an annual payment of \$12,288 based on \$1,024 per month for 12 months, which is \$822 less than proposed by Muhlenberg District, as shown in the table below.

| Description   | Amount          |
|---|-----------------|
| Monthly Contract Payments   | \$ 1,024        |
| Times: 12 months  | 12              |
| Commission Staff's Adjustment   | 12,288          |
| Muhlenberg District's proposed Adjustment ( )                               | (13,110)        |
| Difference between Muhlenberg District's and Commission Staff's Adjustments | <u>\$ (822)</u> |

Commission Staff recommends the Commission accept Commission Staff's \$12,288 increase to Contractual Services to reflect the implementation of a new maintenance contract for billing software.

(K) Depreciation Expense. In its application, Muhlenberg District proposed an adjustment to reduce Depreciation Expense by \$37,110<sup>103</sup> to reflect the "useful lives allowed by the Commission."<sup>104</sup> To evaluate the reasonableness of the depreciation

---

<sup>98</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

<sup>99</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

<sup>100</sup> Muhlenberg District's Response, to Staff's Second Request, Item 4c, 4c\_Contract.pdf.

<sup>101</sup> Muhlenberg District's Response, to Staff's Second Request, Item 4c, 4c\_Contract.pdf, at 6.

<sup>102</sup> Muhlenberg District's Response, to Staff's Second Request, Item 4c.

<sup>103</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment J.

<sup>104</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment J.

practices of small water utilities, the Commission has historically relied upon the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Utilities* (NARUC Study).<sup>105</sup> When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.<sup>106</sup> Upon examination, Commission Staff agrees with Muhlenberg District's methodology to adjust depreciation expense. Commission Staff's calculation differed from Muhlenberg District in four sub-categories: Hydrants; Radio Read Meters, Transportation Equipment; and Structures and Improvements.

When Muhlenberg District calculated the Depreciation Expense for Hydrants, it depreciated all but one at the NARUC recommended 50-year useful service life; however, one of the hydrants was depreciated over a 10-year service life, with no explanation why it was different from all other hydrants. Commission Staff disagrees with using 10-years for the hydrant and calculated the Depreciation Expense for all hydrants over the NARUC recommended 50-year service life. Additionally, Muhlenberg District proposed a service life for Radio Read meters of 15-years. The Commission has ordered that, unless evidence is supplied to justify a different useful life, radio read meters will be depreciated

---

<sup>105</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment K.

<sup>106</sup> See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), Order; Case 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC, Dec. 22, 2023), Order at 30; Case 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024), Order at 36.

over a 20-year service life.<sup>107</sup> Muhlenberg District provided warranty information for their meters, stating the meters had a 20-year warranty period.<sup>108</sup> Therefore, Commission Staff calculated depreciation for the meters over the 20-year service life. When Muhlenberg District calculated the adjustment for the Transportation Equipment it included six assets that had have been disposed of, Commission Staff did not include these six assets in its calculation. Finally, when Muhlenberg District calculated the adjustment for the water treatment plant's structures and improvements it included two assets that had no residual book value. Commission Staff did not include these two assets in its calculation.

Commission Staff calculated a Depreciation Expense of \$466,574, as shown in the following table, which is \$56,570 less than the reported test year amount of \$523,143 and \$19,460 less than Muhlenberg District's proposed \$37,110 decrease to Depreciation Expense.

---

<sup>107</sup> Case No. 2024-00061, *Electronic Application of Butler County Water System, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 1, 2024), Order at 19–20. Case No. 2024-00068, *Electronic Application of Simpson County Water District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Oct. 29, 2024), Order at 21–22.

<sup>108</sup> Muhlenberg District's Response to Staff's First Request, Item 9a.

| Asset Category  | NARUC<br>Recommended  |                           |                            |                           |
|---|-----------------------|---------------------------|----------------------------|---------------------------|
|   | Service Life<br>Range | Test Year<br>Depreciation | Depreciation<br>Adjustment | Pro Forma<br>Depreciation |
| Structures and Improvements   | 35-40                 | \$ 11,028                 | \$ (2,823)                 | \$ 8,205                  |
| Communication Equipment   | 10                    | 3,304                     | 3,633                      | 6,937                     |
| Power Operated Equipment  | 10 - 15               | 1,303                     | (573)                      | 730                       |
| Tools, Shop, & Garage Rquipment   | 15 - 20               | 3,121                     | (1,609)                    | 1,512                     |
| Structures and Improvements   | 35 - 40               | 600                       | 40                         | 640                       |
| Communication Equipment   | 10                    | 10,141                    | -                          | 10,141                    |
| Pumping Equipment   | 20                    | 3,884                     | 118                        | 4,002                     |
| Hydrants  | 40 - 60               | 485                       | (249)                      | 236                       |
| Transmission & Distribution Lines                                       | 50 - 75               | 135,290                   | (37,585)                   | 97,705                    |
| Meter Change-Outs   | 20                    | 85,598                    | (21,487)                   | 64,111                    |
| Services  | 30 - 50               | 4,285                     | (2,678)                    | 1,607                     |
| Reservoirs & Tanks  | 30 - 60               | 67,300                    | (15,831)                   | 51,469                    |
| Transportation Equipment  | 7                     | 123,798                   | (1,448)                    | 122,350                   |
| Structures and Improvements   | 35 - 40               | 72,668                    | 24,194                     | 96,862                    |
| Water Treatment Equipment   | 20-35                 | 339                       | (272)                      | 67                        |
| Total Depreciation Expense  |                       | <u>\$ 523,144</u>         | (56,570)                   | <u>\$ 466,574</u>         |
| Muhlenberg District's Proposed Adjustment ( )                           |                       |                           | 37,110                     |                           |
| Difference Between Muhenberg District and Commission Staff's Adjustment |                       |                           | <u>\$ (19,460)</u>         |                           |

Commission Staff recommends the Commission accept Commission Staff's \$56,569 decrease to Depreciation Expense to reflect the annualization of Depreciation expense at the recommended NARUC midpoint service lives for capital assets with a remaining book value.

(L) Depreciation – Capitalization of Water Tap Labor. As explained in the expenses related to water installations above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.<sup>109</sup> Muhlenberg District confirmed that it had not capitalized the labor costs of the water meter<sup>110</sup> or the costs of

<sup>109</sup> USoA, Accounting Instruction 19 and 33.

<sup>110</sup> Muhlenberg District's Response to Staff's First Request, Item 18b.

materials used.<sup>111</sup> Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$550 to account for the Tap Fee labor and materials, as shown below:

| Description                              | Labor Expenses | Material Expenses |
|--|----------------|-------------------|
| Test Year Water Connections Expense      | \$ 7,011       | \$ 16,359         |
| Divided by: NARUC Proposed Service Lives | 42.5           | 42.5              |
| Total Capitalized Expense Increase       | <u>\$ 165</u>  | <u>385</u>        |
| Total Capitalized Expense                |                | <u>\$ 550</u>     |

Commission Staff recommends the Commission accept Commission Staff's \$550 increase to Depreciation Expense, because the USoA requires the assets to be depreciated over their estimated useful lives.

(M) Amortization Expense. In its application, Muhlenberg District proposed an adjustment to increase Amortization Expense by \$8,335<sup>112</sup> to reflect the five-year amortization of the installation costs for upgrades for the billing system.<sup>113</sup> During 2023, United Systems contacted Muhlenberg District and informed its staff that upgrades would be necessary to continue utilizing its billing software. Muhlenberg District submitted the invoices for the initial cost of the upgrades needed.<sup>114</sup> Also, Muhlenberg District provided a breakdown of the invoices identifying those that were included in the initial outlay.<sup>115</sup> Totaling the invoices, Commission Staff calculated a total initial expense of \$45,186.

---

<sup>111</sup> Muhlenberg District's Response to Staff's First Request, Item 18c.

<sup>112</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

<sup>113</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment I.

<sup>114</sup> Muhlenberg District's Response to Staff's First Request, Item 8, 8\_Billing\_Software.pdf.

<sup>115</sup> Muhlenberg District's Response to Staff's Second Request, Item 4a, 4a\_Billing\_Software\_Upgrade\_Invoices.xlsx.

Muhlenberg District proposed to amortize the initial upgrade expense over a five-year period.<sup>116</sup> Therefore, Commission Staff calculated an annual amortization of \$9,037 for the cost of the Billing Software upgrade, which is \$702 more than proposed by Muhlenberg District, as shown in the following table.

| Description   | Invoice       | Cost    |
|---|---------------|---------|
| Lang Professional Services  | 842051        | \$ 750  |
| Wireless router, internal hard drives, and miscellaneous items                                      | 842052        | 1,790   |
| Miscellaneous Items   | 842090        | 2,706   |
| Dell Precision Server, Vmware Sub Only vSphere 8 Essentials Kit 3 Years Lics, and Professional Svcs | 844530        | 12,265  |
| Miscellaneous Items   | CW5312        | 214     |
| Network Drop Installation   | None          | 2,800   |
| SQL Server 2019 Open Business and SQL 2019 Open Business User                                       | 109661        | 2,966   |
| Alliance UMS G5 Software, Service Order Conversions, UMS Data Conversion, and Alliance Setup        | 111493        | 18,600  |
| G5 Portal Setup Fee   | 111792 Line 1 | 2,095   |
| Remote Technical Services   | 111792 Line 3 | 1,000   |
| Total Initial Cost for Billing Software Upgrades  |               | 45,186  |
| Amortized over Five Years   |               | 5       |
| Commission Staff's Adjustment   |               | 9,037   |
| Muhlenberg District's Adjustment ( )  |               | (8,335) |
| Difference between Muhlenberg and Commission Staff's Adjustments                                    |               | \$ 702  |

Commission Staff recommends the Commission accept Commission Staff's \$9,037 increase to Amortization Expense as well as the five-year period to reflect the annualization of the Billing Software upgrades over a five-year period.

(N) Taxes Other Than Income. In its application, Muhlenberg District proposed an adjustment to decrease Payroll Taxes by \$10,373,<sup>117</sup> to reflect the decrease to Salaries and Wages.<sup>118</sup> As explained in Salaries and Wages – Employees adjustment above, Commission Staff calculated Muhlenberg District's pro forma Salaries and Wages – Employees of \$1,036,059. Therefore, Commission Staff calculated an increase of \$7,059 to Taxes Other Than Income, which is \$17,432 more than Muhlenberg District's proposed adjustment, as shown in the following table.

<sup>116</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

<sup>117</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

<sup>118</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment E.



| Description  | Amount       |
|--|--------------|
| Salaries and Wages - Employees   | \$ 1,036,059 |
| Salaries and Wages - Officers  | 18,000       |
| Total Salaries and Wages   | 1,054,059    |
| Times: 7.65 Percent FICA Rate  | 7.65%        |
| Total Pro Forma Payroll Taxes  | 80,636       |
| Total Taxes Other Than Income  | 80,636       |
| Test Year Payroll Taxes ( )  | (73,577)     |
| Commission Staff's Taxes Other Than Income Adjustment                      | 7,059        |
| Muhlenberg District's Proposed Adjustment ( )                              | 10,373       |
| Difference between Commission Staff's Adjustment and Muhlenberg District's | \$ 17,432    |

Commission Staff recommends the Commission approve Commission Staff's adjustment to decrease Taxes other than Income by \$7,059, because it is a known and measurable change that is a direct result from changes to Salaries and Wages – Employees, and Salaries and Wages - Officers.

#### OVERALL REVENUE REQUIREMENT

The Operating Ratio methodology<sup>119</sup> 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. The Operating Ratio is a method to provide the utility with necessary working capital to operation effectively. Muhlenberg District proposed to use an Operating Ratio of 86 percent in its application.<sup>120</sup> Commission Staff has historically used an Operating Ratio at 88 percent to calculate the additional working capital. Muhlenberg District provided no evidence to demonstrate that

<sup>119</sup> Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

<sup>120</sup> Application, Attachment 4, Revenue Requirement Using Operating Ratio Method.

an Operating Ratio of 86 percent was more appropriate or necessary. An Operating Ratio of 88 percent will allow Muhlenberg District necessary working capital and revenues to cover its reasonable operating expenses to operate and provide for reasonable equity growth. If the Commission used the Debt Service Recovery method, Muhlenberg District would only recover \$175,193 for the Debt Service and Additional Working Capital, as shown in the following table.

| Description                                    | Debt Service<br>Coverage<br>Methodology |
|--|---|
| Pro Forma Operating Expenses                   | \$ 4,773,358                            |
| Average Annual Principal and Interest Payments | 146,121                                 |
| Additional Working Capital at 20%              | 29,224                                  |
| Total Revenue Requirement                      | 4,948,703                               |
| Pro Forma Expense ( )                          | (4,773,358)                             |
| Additional Capital                             | <u>\$ 175,345</u>                       |

The Operating Ratio method provides \$650,912 additional working capital. Commission Staff is of the opinion that, due to Muhlenberg District's low debt service requirement, the rate increase from the debt service coverage method would not provide Muhlenberg District with sufficient working capital to operate effectively to provide adequate, efficient, and reasonable service. Muhlenberg District currently has one outstanding debt, a Kentucky Rural Water Finance Corporation (KRWFC) Loan.<sup>121</sup> Commission Staff recommends using the Operating Ratio method to calculate the revenue requirement for Muhlenberg District.

---

<sup>121</sup> Case No. 2007-00163, *Application of The Muhlenberg County Water District to Issue Securities in the Approximate Principal Amount of \$1,897,000 Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001*, (Ky. PSC May 24, 2007).

By applying the Operating Ratio method, Commission Staff found Muhlenberg District's Revenue Requirement from Rates for Service to be \$5,288,496. A revenue increase of \$833,489, or 18.71 percent, is necessary to generate the Overall Revenue Requirement of \$5,436,930.

| Description                             | Muhlenberg<br>County Water<br>District | Commission<br>Staff |
|---|--|---------------------|
| Pro Forma Operating Expenses            | 4,703,671                              | \$ 4,773,357        |
| Divided by: Operating Ratio Percentage  | 86%                                    | 88%                 |
| Interest Expense                        | 12,788                                 | 12,661 (1)          |
| Overall Revenue Requirement             | 5,482,173                              | 5,436,930           |
| Other Operating Revenue ( )             | (468,577)                              | (140,304) (2)       |
| Interest Income ( )                     | (8,131)                                | (8,131)             |
| Revenue Required from Rates             | 5,005,465                              | 5,288,495           |
| Revenue from Sales at Present Rates ( ) | (4,455,006)                            | (4,455,006)         |
| Required Revenue Increase / (Decrease)  | \$ 550,459                             | \$ 833,489          |
| Percentage Increase / (Decrease)        | 12.36%                                 | 18.71%              |

1. Average Annual Interest and Fees Payments. At the time of Commission Staff's review, Muhlenberg District had one outstanding KRWFC Bond.<sup>122</sup> Therefore, Commission Staff included the average annual interest on a three-year average for the years 2025 through 2027. Commission Staff calculated an average Interest Expense of \$12,661 as shown in the following table.

<sup>122</sup> Case 2007-00163, *Application of The Muhlenberg County Water District to Issue Securities in the Approximate Principal Amount of \$1,897,000 Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001*, (Ky. PSC May 24, 2007).

| Year                             | 2007D Bonds |        | Total     |
|----------------------------------|-------------|--------|-----------|
|                                  | Interest    | Fees   |           |
| 2025                             | \$ 18,200   | \$ 450 | \$ 18,650 |
| 2026                             | 12,513      | 450    | 12,963    |
| 2027                             | 6,370       | -      | 6,370     |
| Total                            | 37,083      | 0      | 37,983    |
| Divided by: 3 years              |             |        | 3         |
| Average Annual Interest and Fees |             |        | \$ 12,661 |

2. Other Operating Revenues. In the application, Muhlenberg District reported \$468,577 for the test year Other Operating Revenues Income.<sup>123</sup> However, Commission Staff reviewed the calculations and determined this amount was incorrect, the \$468,577 Muhlenberg District reported reflects a combination of Chemicals, Materials and Supplies, and Contractual Services expenses.<sup>124</sup> Commission recalculated the Other Operating Revenues based on the pro forma adjustments. Therefore, using the pro forma Forfeited Discounts of \$68,761 and Other Water Revenues of \$71,543, as shown in the Schedule of Adjusted Operations above, result in a net Other Operating Revenue of \$140,304.

---

<sup>123</sup> Application, Attachment 4, Revenue Requirement using Operating Ratio Method.

<sup>124</sup> Muhlenberg District's Response to Staff's First Request, Item 1d, 1d\_Rate\_Study.xlsx, Revenue Requirement Tab, Cell G21.

## Signatures

/s/ William Foley

Prepared by: William Foley  
Revenue Requirement Branch  
Division of Financial Analysis

/s/ Manuel Alejandro Jerez Tamayo

Prepared by: Manuel Jerez Tamayo  
Rate Design Branch  
Division of Financial Analysis

## APPENDIX A

### APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00404 DATED MAY 16 2025

\* Denotes Rounding

#### Nonrecurring Charges Adjustments

| Connection/Turn-on Charge   |                        |                      |       |
|---|------------------------|----------------------|-------|
|   | Utility Revised Charge | Staff Revised Charge |       |
| Field Materials   | \$ -                   | \$                   | -     |
| Field Labor (1hr @ \$27.73)   | \$ 27.73               | \$                   | -     |
| Office Supplies (Paperwork)   | \$ 1.50                | \$                   | 1.50  |
| Office Labor (30min @ \$25.00)  | \$ 12.50               | \$                   | -     |
| Transportation (50miles @ 70 cents)                                   | \$ 35.00               | \$                   | 35.00 |
| Misc. (Office expenses for establishing new account + billing record) | \$ 15.00               | \$                   | 15.00 |
| Total Revised Charge*   | \$ 91.73               | \$                   | 52.00 |
| Current Rate  | \$15.00                |                      |       |

| Field Collection Charge             |                        |                      |       |
|-------------------------------------|------------------------|----------------------|-------|
|                                     | Utility Revised Charge | Staff Revised Charge |       |
| Field Materials                     | \$ -                   | \$                   | -     |
| Field Labor (2hr @ \$27.73)         | \$ 55.46               | \$                   | -     |
| Office Supplies (Paperwork)         | \$ 1.50                | \$                   | 1.50  |
| Office Labor (30min @ \$25.00)      | \$ 12.50               | \$                   | -     |
| Transportation (50miles @ 70 cents) | \$ 35.00               | \$                   | 35.00 |
| Misc.                               | \$ -                   | \$                   | -     |
| Total Revised Charge*               | \$ 104.46              | \$                   | 37.00 |
| Current Rate                        | \$35.00                |                      |       |

| Meter Relocation Charge |                        |                      |   |
|-------------------------|------------------------|----------------------|---|
|                         | Utility Revised Charge | Staff Revised Charge |   |
| Field Materials         | \$ -                   | \$                   | - |
| Field Labor             | \$ -                   | \$                   | - |
| Office Supplies         | \$ -                   | \$                   | - |
| Office Labor            | \$ -                   | \$                   | - |
| Transportation          | \$ -                   | \$                   | - |
| Misc.                   | \$ -                   | \$                   | - |
| Total Revised Charge*   | \$ -                   | \$                   | - |
| Current Rate            | Actual Cost            | Actual Cost          |   |

| Reconnection Charge                 |                        |                      |       |
|-------------------------------------|------------------------|----------------------|-------|
|                                     | Utility Revised Charge | Staff Revised Charge |       |
| Field Materials                     | \$ -                   | \$                   | -     |
| Field Labor (1hr @ \$27.73)         | \$ 27.73               | \$                   | -     |
| Office Supplies (Paperwork)         | \$ 1.50                | \$                   | 1.50  |
| Office Labor (30min @ \$25.00)      | \$ 12.50               | \$                   | -     |
| Transportation (50miles @ 70 cents) | \$ 35.00               | \$                   | 35.00 |
| Misc.                               | \$ -                   | \$                   | -     |
| Total Revised Charge*               | \$ 76.73               | \$                   | 37.00 |
| Current Rate                        | \$50.00                |                      |       |

| Returned Check Charge                    |                        |                      |      |
|--|------------------------|----------------------|------|
|  | Utility Revised Charge | Staff Revised Charge |      |
| Field Materials                          | \$ -                   | \$                   | -    |
| Field Labor                              | \$ -                   | \$                   | -    |
| Office Supplies (Envelope, paper, stamp) | \$ 3.23                | \$                   | 3.23 |
| Office Labor (30min @ \$25.00)           | \$ 12.50               | \$                   | -    |
| Transportation                           | \$ -                   | \$                   | -    |
| Misc.                                    | \$ -                   | \$                   | -    |
| Total Revised Charge*                    | \$ 15.73               | \$                   | 4.00 |
| Current Rate                             | \$25.00                |                      |      |

| Service Call/Investigation          |                        |                      |       |
|-------------------------------------|------------------------|----------------------|-------|
|                                     | Utility Revised Charge | Staff Revised Charge |       |
| Field Materials                     | \$ -                   | \$                   | -     |
| Field Labor (2hr @ \$27.73)         | \$ 55.46               | \$                   | -     |
| Office Supplies (Paperwork)         | \$ 1.50                | \$                   | 1.50  |
| Office Labor (15min @ \$25.00)      | \$ 6.25                | \$                   | -     |
| Transportation (50miles @ 70 cents) | \$ 35.00               | \$                   | 35.00 |
| Misc.                               | \$ -                   | \$                   | -     |
| Total Revised Charge*               | \$ 98.21               | \$                   | 37.00 |
| Current Rate                        | \$35.00                |                      |       |

| Meter Test Request                  |                        |                      |       |
|-------------------------------------|------------------------|----------------------|-------|
|                                     | Utility Revised Charge | Staff Revised Charge |       |
| Field Materials                     | \$ -                   | \$                   | -     |
| Field Labor (2hr @ \$27.17)         | \$ 54.34               | \$                   | -     |
| Office Supplies (Paper)             | \$ 1.50                | \$                   | 1.50  |
| Office Labor (1hr @ \$25.00)        | \$ 25.00               | \$                   | -     |
| Transportation (50miles @ 70 cents) | \$ 35.00               | \$                   | 35.00 |
| Misc. (220 gallons water)           | \$ 1.01                | \$                   | 1.01  |
| Total Revised Charge*               | \$ 116.85              | \$                   | 38.00 |
| Current Rate                        | \$75.00                |                      |       |

| 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge |                        |          |                      |
|--|------------------------|----------|----------------------|
|  | Utility Revised Charge |          | Staff Revised Charge |
| Materials Expense                                  | \$                     | 903.35   | \$ 903.35            |
| Service Pipe Expense                               | \$                     | 11.25    | \$ 11.25             |
| Installation Labor Expense                         | \$                     | 221.84   | \$ 221.84            |
| Installation Equipment Expense                     | \$                     | 200.00   | \$ 200.00            |
| Installation Miscellaneous Expense                 | \$                     | 41.60    | \$ 41.60             |
| Overhead Expense                                   | \$                     | 46.34    | \$ 46.34             |
| Administrative Expense                             | \$                     | 15.00    | \$ 15.00             |
| Total Revised Charge*                              | \$                     | 1,439.38 | \$ 1,440.00          |
| Current Rate                                       |                        | \$570.00 |                      |



## APPENDIX B

### APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00404 DATED MAY 16 2025

The following rates and charges are recommended by Commission Staff based on the adjustments in Commission Staff's Report for the customers in the area served by Muhlenberg County Water District. All other rates and charges not specifically mentioned herein shall remain the same.

#### Monthly Water Rates

##### 5/8" X 3/4" Meters

|       |        |         |            |              |
|-------|--------|---------|------------|--------------|
| First | 2,000  | Gallons | \$ 35.87   | Minimum Bill |
| Next  | 8,000  | Gallons | \$ 0.01339 | Per Gallon   |
| Next  | 10,000 | Gallons | \$ 0.01260 | Per Gallon   |
| Next  | 30,000 | Gallons | \$ 0.01183 | Per Gallon   |
| Over  | 50,000 | Gallons | \$ 0.01105 | Per Gallon   |

##### 1" Meters

|       |        |         |            |              |
|-------|--------|---------|------------|--------------|
| First | 5,000  | Gallons | \$ 76.25   | Minimum Bill |
| Next  | 5,000  | Gallons | \$ 0.01339 | Per Gallon   |
| Next  | 10,000 | Gallons | \$ 0.01260 | Per Gallon   |
| Next  | 30,000 | Gallons | \$ 0.01183 | Per Gallon   |
| Over  | 50,000 | Gallons | \$ 0.01105 | Per Gallon   |

##### 1 1/2" Meters

|       |        |         |            |              |
|-------|--------|---------|------------|--------------|
| First | 11,000 | Gallons | \$ 156.06  | Minimum Bill |
| Next  | 9,000  | Gallons | \$ 0.01260 | Per Gallon   |
| Next  | 30,000 | Gallons | \$ 0.01183 | Per Gallon   |
| Over  | 50,000 | Gallons | \$ 0.01105 | Per Gallon   |

##### 2" Meters

|       |        |         |            |              |
|-------|--------|---------|------------|--------------|
| First | 16,000 | Gallons | \$ 219.30  | Minimum Bill |
| Next  | 4,000  | Gallons | \$ 0.01260 | Per Gallon   |
| Next  | 30,000 | Gallons | \$ 0.01183 | Per Gallon   |
| Over  | 50,000 | Gallons | \$ 0.01105 | Per Gallon   |

##### 3" Meters

|       |        |         |            |              |
|-------|--------|---------|------------|--------------|
| First | 26,000 | Gallons | \$ 341.16  | Minimum Bill |
| Next  | 24,000 | Gallons | \$ 0.01183 | Per Gallon   |
| Over  | 50,000 | Gallons | \$ 0.01105 | Per Gallon   |

4" Meters

|       |        |         |            |              |
|-------|--------|---------|------------|--------------|
| First | 36,000 | Gallons | \$ 459.97  | Minimum Bill |
| Next  | 14,000 | Gallons | \$ 0.01183 | Per Gallon   |
| Over  | 50,000 | Gallons | \$ 0.01105 | Per Gallon   |

Wholesale Rate

\$ 0.00809 Per Gallon

| <u>Nonrecurring Charges</u> | <u>Revised Charge</u> |
|-----------------------------|-----------------------|
| Connection/Turn-on Charge   | \$ 52.00              |
| Field Collection Charge     | \$ 37.00              |
| Meter Relocation Charge     | Actual Cost           |
| Reconnection Charge         | \$ 37.00              |
| Returned Check Charge       | \$ 4.00               |
| Service Call/Investigation  | \$ 37.00              |
| Meter Test Request          | \$ 38.00              |

Meter Connection/Tap-On Charges

5/8 Inch X 3/4 Inch \$ 1,440.00

\*Robert K. Miller  
Straightline Kentucky LLC  
113 North Birchwood Ave.  
Louisville, KY 40206

\*Muhlenberg County Water District  
301 Dean Road  
P. O. Box 348  
Greenville, KY 42345

\*Craig Porter  
Superintendent  
Muhlenberg County Water District  
P. O. Box 348  
Greenville, KY 42345