

North Mercer Water District

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SALVISA, KENTUCKY 40372

November 21, 2016

Talina R. Mathews
Executive Director
Public Service Commission
211 Sower Blvd
Frankfort, KY 40601

RE: Case No. 2016-00325

Dear Ms. Mathews:

Please accept the following which was omitted from the original files uploaded to the PSC e-Filing System forms and supporting documentation of the North Mercer Water District's ARF Application for an adjustment to its water rates.

This file was included in the copy of the ARF Application sent electronically to Office of Rate Intervention in the Attorney General's Office.

Thank you for your consideration in this matter. Please contact me if any further information is needed.

Sincerely,



Mischell Lee
General Manager
North Mercer Water District

References

- a. A position that has been vacant since 2015 will be filled in 2017 and it is anticipated that all existing employees will receive a 3% increase in 2016:

New employee's wages estimated at \$33,400/yr
Existing employee raises = $\$428,981 \times 3\% = \$12,869$
Total adjustment = $\$33,400 + 12,869 = \$46,269$

- b. Benefits associated with the wage adjustment:

Ratio of existing benefits to wages x $\$46,269 = \$16,194$

- c. It is the PSC's practice to require an adjustment to a utility's depreciation expense when asset lives fall outside the ranges recommended by NARUC in its publication titled "Depreciation Practices for Small Water Utilities". Therefore, adjustments are included to bring asset lives within NARUC recommended ranges. In a few cases adjustments are made to asset lives already within NARUC recommended ranges. All adjustments are based on specific experience with the assets. An adjustment is also included for the District's new office building to be purchased in 2016. See Table A.

- d. FICA taxes associated with the wage adjustment:

$\$46,269 \times 7.65\% = \$3,540$

- e. The annual debt service payments for each loan and bond issue are shown in Table B. The 5 year average of these payments is included in the revenue requirement calculation.
- f. Additional working capital is the minimum net revenue above annual debt payments ("Coverage") that is required by the District's lenders. In this case the Coverage requirement is 20% of total debt payments.