

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED ADJUSTMENT OF	)	CASE NO.
THE WHOLESALE WATER SERVICE RATES	)	2019-00444
OF PRINCETON WATER AND WASTEWATER	)	

ORDER

On November 27, 2019, Princeton Water and Wastewater (Princeton) filed with the Commission a revised tariff sheet setting forth proposed adjustments to its existing rates for wholesale water service to Caldwell County Water District (Caldwell District) and Lyon County Water District (Lyon District) (collectively Intervenors) effective on January 1, 2020. Princeton’s current monthly wholesale water rates to each of these wholesale purchasers consist of a Monthly Customer Service Charge per meter of \$4.00 and a usage charge of \$2.2871 per 100 cubic feet. Princeton’s proposal increases the Monthly Customer Service Charge per meter by \$2.00, or 50 percent, to \$6.00 and increases the usage charge by \$0.6829 per 100 cubic feet, or 29.9 percent, from \$2.2871 to \$2.9700 per 100 cubic feet.<sup>1</sup> Princeton further proposes to assess a surcharge over 36 months to the parties that initiate an investigation to cover any rate case expenses it may incur to participate in or in defense of its proposed rates in any Commission proceeding that is initiated to investigate the reasonableness of the proposed rates. The proposed tariff listed the Rate Case Expense Surcharge as \$2,750 per month.

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<sup>1</sup> City of Princeton Water & Wastewater Commission, P.S.C. KY. NO. 1, 61h Revised Sheet No. 1, effective Aug. 1, 2014.

The Commission has jurisdiction over Princeton's rates for wholesale water service to Caldwell District and Lyon District pursuant to KRS 278.200 and the Kentucky Supreme Court's decision in *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460, 463 (Ky. 1994), in which the Court specifically stated that "where contracts have been executed between a utility and a city . . . KRS 278.200 is applicable and requires that by so contracting the City relinquishes the exemption and is rendered subject to the PSC rates and service regulation."<sup>2</sup> Following the Court's decision in *Simpson County*, the Commission has allowed city-owned utilities to file rate adjustments by a tariff filing, and if a hearing is requested and the Commission suspends the proposed rate, then the requirements, the procedures set forth in KRS Chapter 278, and the Commission's regulations apply equally to filings by a city-owned utility or a jurisdictional utility.<sup>3</sup> Therefore, the parties in this case present two issues to the Commission. The first issue is whether Princeton's proposed rate increase is fair, just, and reasonable based upon the evidentiary record. The second issue is whether Princeton's rate case expense and the proposed 36-month surcharge to recover that expense is fair, just, and reasonable based upon the evidentiary record.

### BACKGROUND

Princeton owns and operates water and sewer facilities that provide water service to 3,386 retail water customers, and 2,878 sewer customers, located in and near the city

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<sup>2</sup> *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460, 463 (Ky. 1994).

<sup>3</sup> *Id.*; *City of Danville v. Public Service Comm'n, et al.*, Civil Action No. 15-CI-00989, *Opinion and Order* (Franklin Circuit Court Division II, June 14, 1016).

of Princeton and surrounding areas in Caldwell and Lyon counties, Kentucky. It also provides wholesale water service to Caldwell District and Lyon District.<sup>4</sup>

Caldwell District is a water district organized in 1966 pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides water service to approximately 2,100 retail customers in Caldwell, Crittenden, and Lyon counties, Kentucky.<sup>5</sup>

Lyon District was formed in 1978 pursuant to KRS Chapter 74, and it owns and operates a water distribution system through which it provides water service to approximately 2,600 retail customers in Lyon and Caldwell counties. Caldwell District and Lyon District are subject to full rates and service regulation by the Commission.

#### PROCEDURAL

On November 27, 2019, pursuant to 807 KAR 5:011, Princeton filed a revised tariff proposing to increase its existing rate for wholesale water service to Caldwell District and Lyon District.<sup>6</sup> On December 13, 2019, Caldwell District and Lyon District filed objections to Princeton's proposed wholesale rate and requested further proceedings to determine the reasonableness of the proposed wholesale water rate. By Order dated December 20, 2019, pursuant to KRS 278.190(2), the Commission determined that further proceedings

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<sup>4</sup> Princeton's Response to Staff's First Information Request at 2; Princeton's Response to Staff's Second Information Request, 2-12, 1-16.

<sup>5</sup> *Annual Report of Caldwell County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 12 and 49, Caldwell County Water District and Lyon County Water District's Joint Post-Hearing Brief, p 2 (filed May 22, 2020), and *Annual Report of Lyon County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 12 and 49.

<sup>6</sup> KRS 278.190(3) requires that the Commission render a final decision on Princeton's proposed rate no later than ten months after the filing of the schedule. This ten-month period ends on September 27, 2020.

were necessary and suspended the rates for five months, up to and including May 31, 2020. The Commission further granted Caldwell District and Lyon District leave to intervene in this current proceeding.

The Commission also established a procedural schedule to ensure a complete record and an orderly review of Princeton's proposal. The Commission directed Princeton to file certain information and to respond to Caldwell District's and Lyon District's protest letters in Staff's first request for information. Princeton responded to three rounds of information requests from Staff, in addition to post-hearing requests and supplemental filings. Princeton also responded to one request for information and post-hearing requests for information from the Intervenors. Caldwell District and Lyon District filed direct testimony on March 20, 2020, and responded to one request for information and post-hearing requests for information from both Staff and Princeton.

In response to Princeton's February 15, 2020 request for an extension of 14 days in which to file responses to request for information, the Commission granted Princeton's motion in Commission's February 21, 2019 Order. The Commission also found good cause for Princeton to agree not to implement the proposed rates subject to refund earlier than June 15, 2020, because it is a time commensurate with the extension of 14 days to the deadlines remaining in this case.

The public hearing was held on May 5, 2020, via video conferencing in order to comply with the COVID-19 state of emergency. Testifying at this hearing on behalf of Princeton were Finance Director Tracy Musgove, Superintendent James Noel, and Project Engineer Ricky Oakley. Princeton also made Project Engineer Eric Broomfield available as a witness. Alan Vilines, from the Kentucky Rural Water Association, testified

on behalf of Caldwell District and Lyon District. CEO Jimmy Littlefield of Caldwell District also testified on behalf of Caldwell District.

### TESTIMONY

During the May 5, 2020 hearing, Ms. Musgove testified that Princeton notified the Intervenor of its proposed rate increase and the conflict (referring to the case herein) could have been settled a long time ago.<sup>7</sup> Ms. Musgove testified that Princeton set up a meeting in October and went on to state that they put the rates “out there for them” but received no response.<sup>8</sup> In recross-examination, counsel for the Intervenor questioned Ms. Musgove regarding Caldwell District and Lyon District’s hearing Exhibit 5, which indicated an offer of negotiation on behalf of Caldwell District.<sup>9</sup> In further questioning, Ms. Musgove indicated several missed opportunities to resolve disagreements over the proposed rates were not pursued.<sup>10</sup> Further testimony on behalf of Princeton from James Noel indicated that Princeton did not negotiate or attempt to negotiate with the Intervenor.<sup>11</sup> Ms. Musgove testified that Princeton believed the rates proposed on its behalf were the result of a thorough analysis, and there was no reason to negotiate.<sup>12</sup>

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<sup>7</sup> *Id.* at 13:53:24-13:54:44.

<sup>8</sup> *Id.* at 13:54:29-13:54:37.

<sup>9</sup> May 5, 2020 H.V.T., 14:15:02-14:21:00.

<sup>10</sup> *Id.* Musgove, at 14:15:02 stating the water districts had no follow-up to the October meeting; 14:15:33 stating the Intervenor had no follow-up; 14:16:11 stating she had been told the water districts were going forward with the protest and there was no reason to negotiate; 14:16:42 stating the Intervenor were “half-hearted” but no support for how Musgove knew the attempt to negotiate in the letters were a “half-hearted” attempt.

<sup>11</sup> May 5, 2020, H.V.T. Noel, at 14:51:30.

<sup>12</sup> May 5, 2020, H.V.T. Musgove at 14:19:57.

The Commission notes that Ms. Musgrove did not provide an accurate representation of the negotiation attempts made by the Intervenors. The Commission further notes that Ms. Musgrove admitted knowing about the letters contained in Caldwell District and Lyon District's hearing Exhibit 5, despite previously testifying that the Intervenors made no attempt to negotiate goes to the credibility of her testimony.<sup>13</sup>

Ms. Musgrove testified repeatedly to her qualifications as an expert at the hearing and throughout her prefiled direct testimony; however, she admitted that the "unit cost approach" may have been too simplistic in comparison with the option to perform a cost-of-service study (COSS).<sup>14</sup> Ms. Musgrove testified that Princeton's proposed rates compared to the Intervenors' counter proposal from Mr. Vilines were the result of differing methods that were not necessarily wrong.<sup>15</sup> However, when Staff asked Ms. Musgrove if she reviewed Mr. Vilines's proposed analysis, she stated that she tried to,<sup>16</sup> implying to the Commission that she did not understand how to analyze a COSS. Ms. Musgrove, however, admitted to learning about aspects of the utility ratemaking process throughout this case.<sup>17</sup> Based upon her testimony, the Commission finds that Ms. Musgrove's difficulty in applying basic tenets of utility ratemaking concepts leads the Commission to conclude that Ms. Musgrove is not qualified to testify as a utility rates expert. This, coupled

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<sup>13</sup> May 5, 2020 H.V.T. Musgrove, 14:15:02-14:21:00.

<sup>14</sup> *Id.* Musgrove, 9:58:00.

<sup>15</sup> *Id.* at 13:54:55-13:55:24.

<sup>16</sup> *Id.* at 13:54:44.

<sup>17</sup> *Id.* at 13:56:45 stating that she recognizes some changes she could make; 13:57:09 stating that she was not aware of NARUC recommended depreciation calculations or analysis; 13:57:18 stating that she has "better numbers" now; 13:57:26 stating that "knowing now, what I know" she would make changes to the proposed rate.

with Princeton's strict reliance on the flawed "unit cost approach," goes to the weight of the evidence in the record, and the Commission weighs this in consideration of the evidence she provided.

### TEST PERIOD

The Commission accepts the 12-month period ending June 30, 2019 (Fiscal Year 2019) as initially proposed by Princeton as the test period for determining the reasonableness of the proposed wholesale rate. In using this historic test year, the Commission has given full consideration to appropriate known and measurable changes.

### REVENUES AND EXPENSES

Princeton included with its November 27, 2019 tariff filing a comparative schedule of its water production costs for the Fiscal Years 2014 through 2019. According to this schedule, Princeton recorded water production cost for the fiscal year ending June 30, 2019, of \$1,925,573. In its pro forma income statements filed on April 20, 2020, Princeton reported operating revenues and operating expenses for the Fiscal Year 2019, of \$1,571,377 and \$1,578,789, respectively.<sup>18</sup> The Commission's review of Princeton's test-year operating revenues and expenses are set forth below.

Caldwell District and Lyon District objected to Princeton's proposed revenue requirement increase and proposed several revisions to Princeton's budgetary adjustments. Below, the Commission discusses Princeton's budgetary adjustments and is making adjustments to the Fiscal Year 2019 income state that will result in rates that

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<sup>18</sup> Princeton's Amended Response to Commission Staff's Second Request for Information (Staff's Second Request), Item 1 filed on April 17, 2020.

are fair, just and reasonable. In calculating its adjustments, the Commission has also taken into consideration the adjustments proposed by Caldwell District and Lyon District.

#### Customer Service Charge

Princeton reported customer services revenue for its combined water and wastewater divisions of \$198,648. Using Princeton's current monthly customer service charge of \$4 and the test-year customers of 3,386, the total customer service revenue for the water division is \$162,528. Accordingly, the Commission is decreasing Princeton's test-year revenues by \$36,120 for a total customer service revenue of \$162,528.<sup>19</sup>

#### Employee Salaries

There has been confusion surrounding Princeton's current Director of Finance. In the pro forma income statement, Princeton stated that its Director of Finance is retiring but that a new full time administrative position had been added. To justify recovering the Director of Finance's salary for January 2020 through mid-June 2020, Princeton explained that

[t]he Director of Finance had made plans to retire as of December 31, 2019. Another administrative position was made available and the position was filled in November. Therefore, the Director of Finance's total wages and employer paid benefits from January through mid-June are applicable to the rate case and should be reimbursed.<sup>20</sup>

In its responses to Commission Staff's Post Hearing Data Request, Princeton states that Tracy Musgove is currently employed by Princeton as the Director of Finance and Special Projects. She is considered a "fulltime" employee as defined in the employee

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<sup>19</sup> See Appendix A, Adjustment A.

<sup>20</sup> Princeton's Responses to Staff's Second Information Request, Item 3.



handbook.<sup>21</sup> Given Princeton's response, the Commission finds that Ms. Musgove is currently employed by Princeton and has included her salary in its pro forma employee salary expense.

According to Princeton, it has historically operated its maintenance department with seven employees and that one of its maintenance employees recently resigned.<sup>22</sup> A major factor affecting Princeton's decision to fill the vacant position will be the outcome of this rate case and, specifically, whether there will be sufficient revenue to fill that position.<sup>23</sup> The Commission uses the ratemaking criteria of known and measurable changes in evaluating a utility's proposed pro forma adjustments. In this instance, Princeton has not given a date certain that a new maintenance employee will be hired and has only provided a projected cost for the new employee. Given the uncertainty surrounding the hiring of a new maintenance employee, the Commission finds that Princeton's adjustment as proposed fails to meet the known and measurable criteria and, therefore, should be denied. Caldwell District and Lyon District state that Princeton's test-year wage and benefit expense is not based on a wage and salary survey and Princeton has not performed such a survey.<sup>24</sup>

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<sup>21</sup> Princeton's Responses to Commission Staff's Post Hearing Data Request, Item 1.

<sup>22</sup> Princeton's Brief at 10.

<sup>23</sup> *Id.* at 1–11.

<sup>24</sup> May 5, 2020 H.V.T, Musgove, 13:23:37-13:24:80. Caldwell District and Lyon District Post-Hearing Brief at 10 (filed May 22, 2020). The brief goes on to discuss Princeton's filing of a comparison of benefits as a supplement to its response to Staff's Second Request for Information, 2–9. Caldwell District and Lyon District argue the Commission should disregard this comparison as unreliable. The Commission agrees.

An adjustment to reflect the wage increases Princeton gave its employees in Fiscal Year 2020 would meet the ratemaking criteria of being know and measurable. The wage increases have already been granted and they occurred shortly after the close of Fiscal Year 2019. The Commission is adjusting test-year salaries and wages expense to reflect the current staff level and the 2020 wages,<sup>25</sup> which results in an increase of \$64,431 in wages and salaries.<sup>26</sup>

	Employee Salaries and Wages		
	Pro Forma	Reported	Adjustment
Administration	\$ 250,866	\$ 220,629	\$ 30,237
Water Treatment Plant	200,217	178,041	22,176
Maintenance	263,564	251,546	12,018
Employee Salaries	<u>\$ 714,647</u>	<u>\$ 650,216</u>	<u>\$ 64,431</u>

#### Payroll Taxes – FICA

Princeton reported test-year payroll tax - FICA expense of \$48,413.<sup>27</sup> Applying the FICA tax rate of 7.65 percent to Princeton's pro forma employee salaries and wage expenses result in a pro forma payroll tax – FICA expense of \$54,671. Accordingly, the Commission is increasing test-year expenses by \$6,258.<sup>28</sup>

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<sup>25</sup> Princeton's responses to Commission Staff's Third Request for Information (Staff's Third Request), Item 10.

<sup>26</sup> See Appendix A, Adjustment B.

<sup>27</sup> Responses to Marion District's First Request, Item 11, Exhibit 11-2, 2016 Audit at 5.

<sup>28</sup> See Appendix A, Adjustment C.

	Employee Payroll Taxes		
	Pro Forma	Reported	Adjustment
Administration	\$ 19,191	\$ 16,331	\$ 2,860
Water Treatment Plant	15,317	13,362	1,955
Maintenance	20,163	18,720	1,443
Payroll Taxes	\$ 54,671	\$ 48,413	\$ 6,258

#### Employee Insurance Benefits

In Fiscal Year 2019, Princeton paid 100 percent of the single and family health insurance premiums for its employees. Princeton also paid the single employee premiums for dental, vision and life insurance coverages. Princeton's employee benefit expense for the water division and the shared maintenance expenses for Fiscal Year 2019 was \$223,492.<sup>29</sup>

The Commission is placing greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs for market and geographic competitiveness to ensure the development of fair, just, and reasonable rates. The Commission has found that in most cases 100 percent employer-funded healthcare does not meet those criteria. Absent a utility's requirement of reasonable employee participation in healthcare costs, the Commission has applied a consistent standard by utilizing the Bureau of Labor Statistics report,<sup>30</sup> which reflects an average employee

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Administration	\$ 56,618
Water Treatment Plant	67,562
Maintenance	99,312
Employee Benefits	<u>\$ 223,492</u>

<sup>30</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2019, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2019/ownership/private/table10a.pdf>). (Last accessed June 9, 2020).

contribution to healthcare cost of 38 percent for family and 21 percent for single coverage, respectively.

The Intervenor recognized the Commission's policy of imposing an appropriate adjustment to expenses when a utility does not require reasonable employee contributions toward premium is based upon the U.S. Department of Labor, Bureau of Labor Statistics' average employer/employee contributions for health insurance coverage.<sup>31</sup> The Intervenor proposed adjustment to Princeton's employee health insurance expense is based on the national average for employers of 1–99 employees, which would reflect the Commission's policy of applying employee contributions of the 21 percent level for single health insurance coverage and 38 percent for family coverage.

Princeton argues that it has presented evidence in this proceeding that would allow the Commission to change its position regarding employer-paid benefits and that the Commission could limit its ruling to this case only.<sup>32</sup> Specifically, Princeton explained that two of its employees left employment with Princeton for higher salaries, only to return for the benefits that are provided by Princeton.<sup>33</sup> Princeton argues that with the aging water-utility workforce, it is becoming increasingly difficult for water utilities to attract and maintain talent.<sup>34</sup> Princeton argues that the benefit packages encourage employees to remain in service with a particular water utility and that the customers benefit from that expense.<sup>35</sup> Princeton further argues that, even if the Commission disagrees with

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<sup>31</sup> Caldwell District and Lyon District Post-Hearing Brief page 10.

<sup>32</sup> Princeton's Post-Hearing Brief page 7.

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

Princeton's position that 100 percent of benefits should be recovered in rates, any adjustment to employee benefits should be based on the "All workers" category and not the category used by the Intervenors because if the Commission is encouraging utilities to be "market competitive" on a national level, it does not matter how many employees the employer has.<sup>36</sup>

The experience of two of Princeton's employees is not sufficient evidence to support Princeton's argument that paying 100 percent of its employees' health insurance coverage is reasonable. Princeton admitted that its policy of providing 100 percent family coverage health insurance is not consistent with most other private companies in its service territory.<sup>37</sup> Therefore, rate recovery would require Princeton's rate payers to fund an employee benefit that is not readily available to them, and is therefore unreasonable.

Accordingly, the Commission will adjust Princeton's test-year expenses for employee's health and dental insurance based on national average employee contribution rates. Using the 2020 health and dental premiums, the current staff, a 21 percent employee contribution rate for single coverage, a 34 percent contribution rate for family coverage (family, employee + spouse, and employee + child),<sup>38</sup> and 60 percent employee contribution rate for dental, the Commission calculates a pro forma health and dental expense of \$143,467 which is \$80,025 below the test-year amount.<sup>39</sup>

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<sup>36</sup> *Id.*

<sup>37</sup> Princeton's responses to Commission Staff's Second Request for Information (Staff's Second Request), Item 9.c.

<sup>38</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2019, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2019/ownership/private/table10a.pdf>).

<sup>39</sup> See Appendix A, Adjustment C.

	Employee Insurance Benefits		
	Pro Forma	Reported	Adjustment
Administration	\$ 47,767	\$ 56,618	\$ (8,851)
Water Treatment Plant	34,850	67,562	(32,712)
Maintenance	60,850	99,312	(38,462)
Insurance Benefits	\$ 143,467	\$ 223,492	\$ (80,025)

County Employee Retirement System (CERS).

Princeton provides pension benefits and post-retirement health care benefits to its employees by participating in the CERS. As a participating member, Princeton is required to contribute a percentage of its employee wages to CERS. In the fiscal year, beginning July 1, 2019, the CERS contribution rate was 24.06 percent and in the fiscal year beginning July 1, 2020, the rate was scheduled to increase to 26.95 percent. Princeton proposed to increase its contribution to the CERS to reflect the Fiscal Year 2020 contribution rate.

Princeton acknowledged that the General Assembly had frozen the CERS contribution rate at 24.06 percent.<sup>40</sup> Accordingly, Princeton explained that it is appropriate to adjust pro forma expenses to reflect this lower contribution rate of 24.06 percent.

In Case No. 2016-00163,<sup>41</sup> the Commission discussed in great detail the reporting requirements of GASB 68 and how those requirements would impact 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,

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<sup>40</sup> Princeton Brief at 10.

<sup>41</sup> Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

which historically have been “fairly constant.” The CERS pension expense Princeton reported in the test year conformed to the requirements of the General Accounting Standards Board Pronouncement No. 68 (GASB 68). By using the CERS rate of 24.06 percent and the pro forma salaries and wages expense determined reasonable herein, the Commission calculates a pro forma CERS expense of \$171,943 as calculated in the Table below:<sup>42</sup> This results in a reduction of \$52,409 to the test year pension expense.

	Employee Benefits			
	Pro Forma	CERS	Less: CERS	Adjustment
	Salaries	CERS	Reported	
		24.06%		
Administration	\$ 250,866	\$ 60,358	\$ 73,415	\$ (13,057)
Water Treatment Plant	200,217	48,172	64,787	(16,615)
Maintenance	263,564	63,413	86,150	(22,737)
Benefits	\$ 714,647	\$ 171,943	\$ 224,352	\$ (52,409)

### Chemicals

Princeton proposed to increase the water division’s test-year chemical expense of \$81,088 by \$24,618. Princeton explained that the Monthly Operating Reports submitted to the Division of Water show that the chemical usage has increased in the fiscal year.<sup>43</sup> These reports show the normalized chemical usage as being higher in the past years and in the present fiscal year; hence, the need to include this adjustment as a normalized “known and measurable” expense.<sup>44</sup> In reviewing the supporting workpapers, the Commission finds that Princeton’s adjustment is reasonable and that it does meet the

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<sup>42</sup> See Appendix A, Adjustment E.

<sup>43</sup> Princeton’s Responses to Staff’s Third Request, Item 3.g.

<sup>44</sup> *Id.*

known and measurable criteria. Accordingly, the Commission has increased the water division's chemical expense by \$24,618.<sup>45</sup>

#### Sludge Removal

Princeton proposes to increase pro forma operating expenses by \$28,133<sup>46</sup> to reflect one-half of the cost of the bi-annual lagoon cleaning. Princeton provided a copy of the H&A Resource Management Invoice dated August 26, 2019, supporting the cost incurred to clean its lagoon of \$56,267. Upon review of the worksheet containing the lagoon cleaning history from Fiscal Year 2010 through 2019, the Commission has determined the cleaning fee charged by H&R Resources is reasonable. Accordingly, the Commission finds that Princeton's adjustment should be accepted.<sup>47</sup>

#### Capital Cost/Labor

In the test year, Princeton reduced the water division's operating expenses by \$39,075<sup>48</sup> to capitalize the labor as an overhead cost of construction. Princeton proposes to reduce its capitalized labor adjustment by \$34,075 to return to a claimed normal level. Princeton provided a schedule showing that between 2009 and 2019 the amount of labor costs capitalized fluctuated between \$533 and \$76,135. This shows that there is not a historical normalized level for capitalized labor as proposed by Princeton. Therefore, the Commission finds that Princeton's proposed adjustment should be denied. However, an

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<sup>45</sup> See Appendix A, Adjustment F.

<sup>46</sup> \$58,267 (Cost to Clean Lagoon) ÷ 2 (Years) = \$28,133.

<sup>47</sup> See Appendix A, Adjustment G.

<sup>48</sup> The total capital labor reported by Princeton was \$55,166. The wastewater division reported \$16,091 and the water division reported \$39,075.



adjustment of \$16,091 was made to reflect the water division's portion of capitalized labor of (\$39,075).<sup>49</sup>

### Attorney Fees

Princeton proposes to reduce its test-year attorney fees of \$10,058 by \$4,058 to a pro forma level of \$6,000. Princeton's adjustment reflects the monthly retainer fee it currently pays to its attorney. An adjustment to reduce the attorney fees to reflect the current retainer fee meets the ratemaking criteria of known and measurable.<sup>50</sup> Accordingly, the Commission accepts Princeton's adjustment.<sup>51</sup>

### Depreciation

In its November 17, 2019 tariff filing, Princeton reported test-year depreciation expense of \$803,032 for the combined water and wastewater divisions and of that \$511,668 was reported as depreciation expense for its water division.<sup>52</sup> In its pro forma Income Statement submitted on March 6, 2020, Princeton applied the depreciation lives contained in the 1979 report published by the National Association of Regulatory Utility

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<sup>49</sup> See Appendix A, Adjustment H.

<sup>50</sup> 807 Ky. Admin. Regs. 5:001, Section 16.1. (a).; Case No. 2001-00211, *The 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 therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC March 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); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

<sup>51</sup> See Appendix A, Adjustment J.

<sup>52</sup> *Id.*

Commissioners (NARUC) titled Depreciation Practices for Small Water Utilities (NARUC Study). In this filing, Princeton calculated a test-year depreciation expense of \$399,316.

To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in the 1979 NARUC Study.<sup>53</sup> When no evidence exists to support a specific life that is inside or outside the NARUC ranges, the Commission has historically used the mid-point of the NARUC ranges to depreciate utility plant.

In its post-hearing brief, Princeton claims that the proposal set forth by the expert for Caldwell District and Lyon District, Mr. Vilines, is not accurate. Princeton notes that Mr. Vilines made more than 30 adjustments to the service lives of Princeton's assets and Princeton will accept them, with two exceptions. Princeton claims the service life for Skyline Tank Repairs and Soft Costs should be 15 years and the amended analysis would be an increase of \$13,401.65.<sup>54</sup> Princeton supports this claim by stating that Mr. Vilines admitted he was not aware of the costs for the project and testified that he would likely recommend a different service life.<sup>55</sup> Princeton also claims that Mr. Vilines should have categorized the class of assets labeled "Water Distribution Improvements" as "Water Treatment Equipment" to provide for a 27.5 year of service life under the NARUC guidelines. Princeton states that amended analysis would be an increase of \$8,144.68.<sup>56</sup>

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<sup>53</sup> Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); Case No. 2018-00208, *Electronic Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates* (Ky. PSC Feb. 11, 2019); and Case No. 2019-00080, *Electronic Proposed Adjustment of The Wholesale Water Service Rates of The City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019)

<sup>54</sup> Princeton Post-Hearing Brief at 4–5 (May 22, 2020).

<sup>55</sup> May 5, 2020 H.V.T, Vilines, 15:37:30; 6:55:00.

<sup>56</sup> Princeton Post-Hearing Brief at 5 (May 22, 2020).

Upon review of the Skyline Tank Repairs and Soft Costs, the Commission notes that these costs represent nonrecurring maintenance costs. In reviewing Princeton's proposed 15-year amortization of its nonrecurring maintenance costs, the Commission finds that the proposed period is reasonable. Princeton has not presented any supporting analysis or study to show that its original depreciation lives are appropriate. The Commission, therefore, calculates a test-year depreciation expense for the water division of \$403,744 to reflect depreciating all of Princeton's water utility plant, including post-test-year plant, over the NARUC depreciation lives and the nonrecurring costs over 15 years and reduces the combined depreciation expense of \$803,032 by \$399,288.<sup>57</sup>

#### Revenue and Expense Allocations

Princeton recorded numerous shared revenues and expenses incurred to operate its water and wastewater divisions. Shared revenues are allocated between the two divisions based on reported revenues. It currently allocates the salaries and benefits paid to its Superintendent and Director of Finance evenly between the two divisions. All other operating expenses classified by Princeton as administrative are recovered through the water and wastewater customer service charges.

Princeton originally explained that its maintenance department expenses were randomly allocated with 45 percent allocated to the water division and the remaining 55 percent allocated to the wastewater division. Princeton's random maintenance department allocation rates were established in 2010 when the first worksheet on unit cost of production was attempted.<sup>58</sup> Princeton explains that while it is not able to

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<sup>57</sup> See Appendix A, Adjustment J.

<sup>58</sup> May 5, 2020 H.V.T, Musgove, 13:16:06-13:18:00.

document the actual time each maintenance employee spends between departments, a review of the inventory records and work orders by departments show a majority of maintenance department time is actually water related instead of sewer.

Princeton did not produce a time analysis or study to support any of the allocation methods currently in use. Given the absence of a supporting study or analysis, the Commission has found in prior proceedings a more equitable method to allocate the shared costs between two divisions is to use a factor based on the number of customers that are served by each division (Customer Allocation Factor).<sup>59</sup> Using the customers that are served by each division in Fiscal Year 2019, the Commission has determined that 54.05 percent of the shared revenues and expenses should be allocated to the water division and the balance to the wastewater division.<sup>60</sup>

The table below is the allocation of the shared revenues between Princeton's water and wastewater divisions.<sup>61</sup>

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<sup>59</sup> See, e.g. Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC: Staff Report issued Feb. 15, 2013; Final Order issued July 12, 2013); Case No. 2013-00350, *Alternative Rate Adjustment Filing Garrison-Quincy-Ky-O-Heights Water District* (Ky. PSC: Staff Report issued Jan. 17, 2014; Final Order issued Feb 19, 2014); Case No. 2017-00074, *Application of Western Lewis Rectorville Water and Gas District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC: Staff Report issued July 17, 2017; Final Order issued Oct. 18, 2017); Case No. 2017-00371, *Application of Symsonia Water and Sewer District for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC: Staff Report issued Jan. 3, 2018; Final Order issued Mar. 30, 2018); and Case No. 2018-00117, *Application of Ledbetter Water District for an Alternative Rate Adjustment* (Ky. PSC: Staff Report issued July 16, 2018; Final Order issued Sep. 10, 2018).

<sup>60</sup>  $3,386 \text{ (Water Customers)} \div 6,264 \text{ (Total Water and Wastewater)} = 54.05\%$ .

<sup>61</sup> The adjusted column in the revenue and expense schedules reflects Princeton's actual test year revenues and expenses adjusted to reflect the pro forma adjustments that the Commission has found reasonable herein.

Account No.	Description	Adjusted	-45.95% Wastewater Allocation	54.05% Water Allocation
4020	Penalty Income	58,701	(26,973)	31,728
4030	Sale of Stores	11,661	(5,358)	6,303
4040	Labor Sales	6,200	(2,849)	3,351
4046	Bank Customer ACH	1,403	(645)	758
4050	Equipment Rental	4,428	(2,035)	2,393
4080	Service Charge & Connection Fees	20,575	(9,454)	11,121
4087	Recovery of Bad Debt	(2,745)	1,261	(1,484)
4095	Pmt Plan Misc Invoices	2,297	(1,055)	1,242
	Total Operating Revenues	<u>102,520</u>	<u>(47,108)</u>	<u>55,412</u>

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The table below is the allocation of the shared expenses between Princeton's water and wastewater divisions.

Account No.	Description	Adjusted	-45.95% Wastewater Allocation	54.05% Water Allocation
<b>Administration</b>				
100-6010	Salaries	250,866	(115,273)	135,593
100-6020	Payroll Tax	19,191	(8,818)	10,373
100-6030	Employee Benefits	47,767	(21,949)	25,818
100-6040	Uniforms	940	(432)	508
100-6050	Training Expense	7,323	(3,365)	3,958
100-6060	CERS/Pension/OPEB	60,358	(27,735)	32,623
100-6070	Utilities	8,063	(3,705)	4,358
100-6080	Gas and Oil	169	(78)	91
100-6090	Equipment Repair	2,376	(1,092)	1,284
100-6100	Supplies	6,882	(3,162)	3,720
100-6110	Insurance	4,278	(1,966)	2,312
100-6121	Professional Services	3,085	(1,418)	1,667
100-6122	Data Processing	10,270	(4,719)	5,551
100-6130	Miscellaneous Expense	3,822	(1,756)	2,066
100-6135	Postage	11,268	(5,178)	6,090
100-6160	Tools & Small Equipment	4,562	(2,096)	2,466
100-6180	Building Repair & Maintenance	3,518	(1,617)	1,901
	<b>Administrative Expenses</b>	<b>444,738</b>	<b>(204,359)</b>	<b>240,379</b>
<b>Maintenance</b>				
400-6010	Salaries	263,235	(120,956)	142,279
400-6020	Payroll Tax	20,137	(9,253)	10,884
400-6030	Employee Benefits	60,850	(27,961)	32,889
400-6040	Uniforms	2,711	(1,246)	1,465
400-6050	Training Expense	990	(455)	535
400-6060	CERS/Pension/OPEB	63,334	(29,102)	34,232
400-6070	Utilities	13,940	(6,405)	7,535
400-6080	Gas and Oil	14,745	(6,775)	7,970
400-6090	Equipment Repair	8,895	(4,087)	4,808
400-6100	Supplies	5,104	(2,345)	2,759
400-6105	Chemicals	40,481	(40,481)	-
400-6110	Insurance	19,348	(8,890)	10,458
400-6121	Professional Services	1,493	(686)	807
400-6130	Miscellaneous Expense	2,183	(1,003)	1,180
400-6135	Postage	154	(71)	83
400-6140	Rental and Lease	667	(306)	361
400-6160	Tools & Small Equipment	10,544	(4,845)	5,699
400-6180	Building Repair & Maintenance	1,219	(560)	659
400-6650	Inventory Expense	21,119	(9,704)	11,415
400-6660	Misc. Material Ex	29,460	(13,537)	15,923
400-6665	Freight Expense	74	(34)	40
400-6670	Capital Cost/Labor	(39,075)	17,955	(16,091)
	<b>Maintenance Expenses</b>	<b>541,608</b>	<b>(270,747)</b>	<b>275,890</b>
<b>Unallocated Commission</b>				
500-6010	Salaries (Commissioners)	9,000	(4,136)	4,864
500-6110	Insurance	4,971	(2,284)	2,687
500-6150	Attorney Fees	6,000	(2,757)	3,243
	<b>Commission Expenses</b>	<b>19,971</b>	<b>(9,177)</b>	<b>10,794</b>

### Forecasted Expenses

Princeton proposed adjustments to employee salaries and to employee benefits to reflect projected Fiscal Year 2021 hourly wages and insurance premiums. Not only does the Fiscal Year begin 24 months after the close of the test-year but Princeton claims that its proposed adjustments are the result of the Fiscal Year 2021 budget process.<sup>62</sup> The Commission has traditionally limited how far outside the test year it will allow post-test-year expense adjustments, especially if such adjustments are made in isolation from similar adjustments to revenues, rate base and capitalization<sup>63</sup> and are based upon budgetary projections that are not known and measurable.<sup>64</sup> Accordingly, the Commission finds that Princeton's proposed adjustments to reflect forecasted 2021 wages and health insurance premiums should be denied.

### Summary Impact of Adjustments

After considering the test-year operating revenues and expenses, including appropriate adjustments found reasonable herein, the Commission has determined that the financial results of Princeton's pro forma test-year operations are as follows:<sup>65</sup>

	<u>Test-Year Actual</u>	<u>Pro Forma Adjustments</u>	<u>Allocation Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 1,821,377	\$ (36,120)	\$ (47,866)	\$ 1,737,391
Operating Expenses	2,528,113	(396,249)	(502,437)	1,629,427
Net Operating Income	<u>\$ (706,736)</u>	<u>\$ 360,129</u>	<u>\$ 454,571</u>	<u>\$ 107,964</u>

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<sup>62</sup> Princeton's Responses to Commission Staff's Third Request for Information, Item 10.a.

<sup>63</sup> Case No. 94-336, *Application of East Kentucky Power Cooperative, Inc. to Adjust Electric Rates* (Ky. PSC July 25, 1995) at 3-2.

<sup>64</sup> *Supra* fn. 50.

<sup>65</sup> See Appendix A for a detailed summary of this table.

## OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a debt service coverage (DSC) method to calculate the Overall Revenue Requirement of water districts, water associations, and municipal-owned water utilities. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a noncash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

A comparison of Princeton's and the Commission's calculation of the Overall Revenue Requirement and Required Revenue Increase using the DSC method is shown below:

	<u>Princeton</u>	<u>Commission</u>
Pro Forma Operation & Maintenance Expenses	\$ 1,179,482	\$ 1,225,683
Pro Forma Depreciation	399,316	403,744
Pro Forma Operating Expenses	<u>1,578,798</u>	<u>1,629,427</u>
PLUS: Avg Annual Debt Principal and Interest Payments	176,065	147,130
PLUS: Debt Coverage Requirement	35,213	29,426
Total Revenue Requirements	<u>1,790,076</u>	<u>1,805,983</u>
LESS: Other Operating Revenue	(51,168)	(54,654)
Revenue Required from Rates	<u>1,738,907</u>	<u>1,751,329</u>
LESS: Normalized Revenues from Sales	<u>(1,520,209)</u>	<u>(1,682,737)</u>
Required Revenue Increase/(Decrease)	<u>\$ 218,698</u>	<u>\$ 68,592</u>
Percentage Increase	<u>14.4%</u>	<u>4.1%</u>



Average Annual Principal and Interest Payments

At the close of Fiscal Year 2019, Princeton reported the following outstanding debt issuances: (1) Kentucky Association of Counties Series 2018-C (KACo Series 2018C); and (2) United States Department of Agriculture (USDA) Revenue Series 2019 Bonds (Series 2019 Bonds).<sup>66</sup> The debt issuances are discussed in more detail below.

KACo Series 2018C. Princeton explained that the purpose of this debt issuance was to refinance the remaining balance of the Rural Development Series 2000 bond issuance in an effort to lower interest rates. The proceeds from the original bonds were used by Princeton to upgrade the water treatment plant from 2.0 MGD to 3.0 MGD to ensure a continued reliable water supply.

Given the original purpose of the 2000 debt issuance was to upgrade the water treatment plant used by Princeton to provide wholesale water service to Caldwell District and to Lyon District, the Commission finds that 100 percent of the debt service for the KACo Series 2018C Bonds should be recovered from the retail and wholesale water customers assigned to the inside-the-city water system. The following is the amortization schedule for the KACo Series 2018C loan.

	KACo Series 2018C Debt Service	
2021	\$	72,407
2022	\$	75,532
2023	\$	73,532
Avg.	\$	73,824

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<sup>66</sup> Princeton's responses to the Commission's January 10, 2020 Order, Item 6.c.

USDA Series 2019 Bonds. Princeton explained that it used the proceeds from this issuance to construct a new 16-inch transmission line to feed the Industrial Park Tank, to rehabilitate the Skyline Tank, and to switch over the service on the Sandlick Road around the UK Experiment Station to the high-level system and improve water quality and water pressure. According to Princeton the 8-inch water line improvements around the UK Experiment Station did not impact or improve its ability to serve its wholesale customers.

Upon review of the Engineering Report<sup>67</sup> provided by Princeton, the Commission finds, as shown in the calculation in Appendix B, that only 72.17 percent of the USDA Series 2019 Bonds debt service should be included in the revenue requirement calculation. The following schedule is the comparison of the three-year average debt service calculation for the total and allocated debt service for the Series 2016A Bonds.

	USDA Series 2019 Bonds Debt Service	Allocation
2021	\$ 100,747	\$ 73,257
2022	\$ 100,822	\$ 73,312
2023	\$ 100,876	\$ 73,351
Avg.	\$ 100,815	\$ 73,307

Three-Year Average Debt Service. The schedule below is the calculation of the three-year average debt service the Commission used in its revenue requirement determination.

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<sup>67</sup> Princeton's Responses to Staff's Second Request, Item 8.b.

	KACo Series 2018C Debt Service	USDA Series 2019 Bonds Debt Service	Total
2021	\$ 72,407	\$ 73,257	\$ 145,664
2022	\$ 75,532	\$ 73,312	\$ 148,844
2023	\$ 73,532	\$ 73,351	\$ 146,883
Avg.	\$ 73,824	\$ 73,307	\$ 147,131

### RATE DESIGN

Princeton’s current wholesale rate design is a two-part rate design consisting of a meter charge applied to each meter per month and a volumetric rate applied to monthly customer usage. Princeton proposed to increase its monthly meter charge from \$4.00 per meter to \$6.00 per meter, a 50.00 percent increase, and proposed to increase its volumetric charge from \$2.2871 per 100 cubic feet to \$2.97 per 100 cubic feet, a 29.86 percent increase.

Princeton’s Director of Finance developed the “unit cost approach” in-house. Ms. Musgove testified that the “unit cost approach” was used in place of a COSS to determine the rates proposed by Princeton.<sup>68</sup> Princeton did not perform a COSS, and Ms. Musgove admitted at the hearing that she wished that a COSS had been performed.<sup>69</sup> Ms. Musgove explained the approach in her testimony and responses to information requests.

Cost accounting is used in manufacturing entities to derive the “unit cost” of particular products by adding all direct and indirect labor and material costs and then dividing by the total number of units produced. Hence, this same approach was utilized to find out the “unit cost” of the products produced and sold by PWWC, water and wastewater disposal.<sup>70</sup>

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<sup>68</sup> May 5, 2020 H.V.T., Musgove, 9:43:00.

<sup>69</sup> May 5, 2020 H.V.T, Musgove, 9:58:00.

<sup>70</sup> Princeton Response to Commission Staff’s Second Request for information, Item 17.

Ms. Musgove states that the proposed \$2.97 per 100 cubic feet rate is the same rate that Princeton's largest retail customers pay.<sup>71</sup>

Caldwell District and Lyon District argue that Princeton's proposed unit cost approach is inappropriate and inaccurate. They contend that the approach fails to make proper adjustment to expenses, fails to fairly allocate costs, and is too simplistic. Caldwell District and Lyon District objected to Ms. Musgove's qualifications as an expert in applying the methodology.<sup>72</sup> Princeton believes that with several appropriate adjustments to Mr. Vilines's analysis the result is a volumetric wholesale rate of \$3.03 per 100 cubic feet.<sup>73</sup> Princeton claims this supports the reasonableness of the method and rate presented by Princeton.<sup>74</sup>

The Commission finds Princeton's unit cost approach could be used to design rates if all of the system customers' usage was approximately the same; however, wholesale customers' usage volume and pattern differ from retail customers. Wholesale rates should be established on the basis of the costs required to provide the wholesale water service. Given the lack of supporting evidence, the Commission finds that Princeton has failed to meet its burden of proof that the unit cost approach produces a fair, just, and reasonable wholesale water rate, and therefore, Princeton's proposed unit cost approach and the wholesale rates produced by it should be rejected.

### COSS

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<sup>71</sup> Direct Testimony of Tracy B. Musgove at 6, line 9–12.

<sup>72</sup> Caldwell District and Lyon District Post-Hearing Brief at 7–8 (May 22, 2020).

<sup>73</sup> Princeton Post-Hearing Brief at 1.

<sup>74</sup> Princeton Post-Hearing Brief at 3.

Princeton did not file a COSS with its application; however, Caldwell District and Lyon District filed a COSS prepared by Mr. Vilines.<sup>75</sup> Mr. Vilines' COSS utilizes what is referred to as the "inch-mile" methodology to allocate the expenses associated with the production of water and allows for an equitable manner of the allocation of these expenses to calculate a wholesale rate based upon information available.

Princeton does not question the use of this allocation method nor the COSS filed, but Princeton did take exception to the total jointly used miles of main that Mr. Vilines used in his study. Princeton argues that the 362.56 jointly used inch-miles of main used by Mr. Vilines in his analysis is not accurate. Princeton states that Mr. Vilines is not familiar with Princeton's system and he did not communicate with Princeton personnel, nor the engineering firm employed by Princeton to determine a proper level of jointly used inch miles.<sup>76</sup> Princeton further argues that the 496.30 jointly used inch-miles of main calculated by the engineering firm of Heathcoat & Davis is more accurate to determine the amount of miles of main used to provide service to the wholesale customers.<sup>77</sup>

Princeton did not challenge the amount of miles of mains that Mr. Vilines utilized in his study until the filing of Princeton's brief. Prior to filing its brief, Princeton, neither during discovery nor at the Formal Hearing challenge nor cross-examine, challenged how Mr. Vilines calculated 362.56 miles of mains. Princeton provided an update to Mr. Vilines' study. In this revised study, Princeton inputted 496.30 as the jointly used inch-miles and made adjustments, but did not provide an explanation for each of the adjustments to

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<sup>75</sup> Caldwell District and Lyon District's Response to Commission Staff's Second Request for information, Item 3.

<sup>76</sup> Princeton Post-Hearing Brief at 12.

<sup>77</sup> *Id.*

jointly used miles of lines it made.<sup>78</sup> Princeton only provided an Excel file with its calculations used to determine the 496.30 jointly used inch-miles and cited to data that would be used to calculate the amount of jointly used inch-miles.<sup>79</sup>

The Commission has ruled in previous cases that the costs associated with mains that do not benefit the wholesale customer should not be included in the wholesale rate.<sup>80</sup> The COSS update provided by Princeton is not supported, Princeton did not provide direct testimony from its engineering firm Hethcoat & Davis, nor did Princeton present a witness at the hearing. The Commission also notes that neither the parties nor the Commission itself had sufficient opportunity to fully explore the revised COSS. Therefore, the Commission finds that Mr. Vilines's calculation of the jointly used inch-miles is the most accurate cost estimate and is more appropriate for determining the wholesale rate for Princeton as the analysis provides a traditional method previously accepted by the Commission in determining wholesale water rates. The rates set forth in Appendix C are based upon the revenue requirement of \$1,805,983, as calculated by the Commission, and applied to the allocation method as presented by Mr. Vilines.

#### Customer Charge

A customer charge is used to recover the fixed expenses of the system without regard to the amount of the water consumed. Princeton's proposed monthly customer

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<sup>78</sup> *Id.*

<sup>79</sup> *Id.*

<sup>80</sup> See 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* (Apr. 30, 2003) at 25-26.; Case No. 2002-00022, *Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville, Kentucky* (Oct. 18, 2002) at 35.

charge was determined by totaling the fixed expenses, as determined by Princeton, dividing that amount by the total number of meters in the system for an annual amount and then dividing that by 12 months. Caldwell District and Lyon District argued that Princeton's proposed 50 percent increase to the customer charge is not supported and that the allocated wholesale portion of administrative costs should be included in the volumetric rate.<sup>81</sup> Mr. Vilines states that pro forma expenses should be allocated to four categories: water production, transmission and distribution, customer accounts, and administrative. Mr. Vilines argues that the activities of the administration and maintenance groups are related solely to retail customers and facilities serving retail customers, and these expenses should be allocated to the customer accounts category and not shared by wholesale customers.<sup>82</sup> Mr. Vilines argues that the wholesale portion of the administrative expenses are more appropriately recovered through wholesale volumetric rate as opposed to Princeton's proposed customer charge.<sup>83</sup>

According to the American Water Works Association's (*AWWA Manual of Water Practices, Principles of Water Rates, Fees, and Charges* (AWWA M1 Manual):

Wholesale rates should be designed to recover costs of providing service based on usage, pattern of usage, and level of service of individual wholesale class members. Often in developing a rate design to recover the cost of providing wholesale service, customer-related costs are a small percentage of the total cost of service. Rather than use a wholesale service charge, some utilities recover customer related costs through the commodity, or volume charge.<sup>84</sup>

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<sup>81</sup> Caldwell District's and Lyon District's Post-Hearing Brief at 15.

<sup>82</sup> Vilines direct testimony at 3, line 19–23.

<sup>83</sup> Vilines direct testimony at 4, line 4–6.

<sup>84</sup> AWWA M1 Manual at 236.

Therefore, based upon the AWWA M1 Manual criteria, the Commission finds that Princeton's proposed customer-related costs should be recovered through the volumetric rate. Furthermore, unlike most wholesale water suppliers that own the master meters, Caldwell District owns the nine master meters that Princeton uses to supply water to the Caldwell District.<sup>85</sup> Caldwell District is therefore responsible for the costs of maintenance, testing, and replacement of the meters and such costs should be excluded from Princeton's cost calculations.

The Commission notes that Princeton, Caldwell District, and Lyon District have invested significant resources litigating the case. Princeton argues it did not choose to perform a COSS due to the expense.<sup>86</sup> The investment in a COSS performed by a reputable independent entity could have provided both parties assurance that the rates were formulated in accordance with the Commission's previously accepted ratemaking principles. The high cost of legal fees and the number of resources that were spent on supporting the proposed adjustment may have been avoided if Princeton had at least properly researched and supported the proposed adjustment before attempting to apply for the rate increase and attempted to negotiate with Caldwell District and Lyon District as they requested prior to the matter being litigated at the Commission.

#### RATE CASE EXPENSES

A utility may properly recover reasonable rate case expenses as a cost of doing business.<sup>87</sup> The Commission has generally permitted rate recovery of a reasonable level

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<sup>85</sup> Princeton's response to Staff's First Request for Information, Item 18.c.

<sup>86</sup> May 5, 2020 H.V.T, Musgove, 9:58:00.

<sup>87</sup> See *Driscoll v. Edison Light & Power Co.*, 307 U.S. 104, 120 (1939).



of rate case expenses but has disallowed such expenses when a utility has failed to provide adequate documentary evidence of the incurrence of the expense.<sup>88</sup> The Commission has also disallowed such expenses as unreasonable when related to a poorly or improperly prepared rate application<sup>89</sup> and in cases in which the utility failed to justify the high level of expenses for relatively simple alternative rate filings.<sup>90</sup>

In its November 27, 2019 tariff filing, Princeton proposed a rate case expense surcharge mechanism. The filing proposed to assess a surcharge over 36 months to recover any rate case expenses it may incur to participate in and defend its proposed rates. In the tariff filing, Princeton used rate case expenses totaling \$99,000 as demonstrative of its proposed methodology.

In Case No. 2009-00373, *Proposed Adjustment of the Wholesale Service Rates of Hopkinsville Water Environment Authority*, the Commission analyzed whether the special counsel fees were part of reasonable rate case expenses and capped the rate case expense.<sup>91</sup> The Commission evaluates the prudence of rate case expense on a case by case basis.<sup>92</sup> In Case No. 2009-00373, the Commission allocated the cost of performing a COSS because it related to all the customers and reduced the special counsel fees that

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<sup>88</sup> Case No. 2008-00250, *Proposed Adjustment of the Wholesale Water Service Rates of Frankfort Electric and Water Plant Board* (Ky. PSC Apr. 6, 2009).

<sup>89</sup> Case No. 8783, *Application of Third Street Sanitation, Inc. for an Adjustment of Rates Pursuant to the Alternative Procedural for Small Utilities* (Ky. PSC Nov. 14, 1983).

<sup>90</sup> Case No. 9127, *Application of Sargent and Sturgeon Builders, Inc., Gardenside Subdivision Sewer Division, for a Rate Adjustment Pursuant to the Alternative Rate Filing for Small Utilities* (Ky. PSC Mar. 25, 1985).

<sup>91</sup> Case No. 2009-00373, *Proposed Adjustment of the Wholesale service Rates of Hopkinsville Water environment Authority* (Ky. PSC July 2, 2010).

<sup>92</sup> *Id.* at 5–6.

were related to the COSS because it was performed after the application and not used to develop the proposed rates at issue. The high level of rate case expense compared to the complexity of the issues and the level of rate case expenses for similar cases were factors the Commission reviewed in finding that Hopkinsville's expense related to special counsel fees should be capped at \$50,000.<sup>93</sup>

Princeton provided copies of itemized invoices from its attorney and engineer showing that actual costs incurred in conjunction with this rate case are \$103,824.<sup>94</sup> However, the schedule provided to support the time Princeton's Director of Finance devoted to the rate case lacks sufficient detail. The schedule lists general meetings between the Director of Finance and "Bob" or a prehearing conference.<sup>95</sup>

To justify recovery of the Director of Finance's salary through the rate case surcharge Princeton explained that:

The Director of Finance had made plans to retire as of December 31, 2019. Another administrative position was made available and the position was filled in November. Therefore, the Director of Finance's total wages and employer paid benefits from January through mid-June are applicable to the rate case and should be reimbursed.

However, as previously noted in a response to a Post-Hearing Data Request, Princeton explained that Tracy Musgove is currently employed by Princeton as the Director of Finance and Special Projects. She is considered a "fulltime" employee as defined in the employee handbook.<sup>96</sup>

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<sup>93</sup> *Id.* at 9–13.

<sup>94</sup> Princeton's PWWC Monthly Supplement to 2–3 (May 15, 2020).

<sup>95</sup> *Id.*

<sup>96</sup> Princeton's Responses to Commission Staff's Post Hearing Data Request, Item 1.

Given that Ms. Musgove is a full-time employee of Princeton, the Commission has included her full salary in Princeton's pro forma operating expenses. Allowing Princeton to now recover any portion of Ms. Musgove's salary through the rate case surcharge would result in double recovery. Therefore, the Commission finds that the salary of the Director of Finance should not be recovered by Princeton through the rate case surcharge. The Commission also finds that Princeton's conduct attributed to the excessive rate case expense. Specifically, the Commission finds that Princeton bears responsibility for rejecting reasonable attempts at negotiation<sup>97</sup> and misleading the Commission about negotiations by misrepresenting the facts.<sup>98</sup> The "unit cost approach" is rejected as a flawed method for calculating wholesale water rates. Princeton was presented with researched, supported counter proposals, and either obstinacy or incompetency prevented Princeton from making any reasonable concessions during the pendency of this action.<sup>99</sup> Princeton's actions delayed a resolution, increasing litigation costs and preventing any mitigation of expense. Assessing the full rate case expense against Caldwell District and Lyon District alone is not justified or reasonable. Princeton, because of its actions, should be responsible for its share of the expense.

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<sup>97</sup> May 5, 2020, H.V.T. Musgove, at 14:15:02 stating the water districts had no follow-up to the October meeting; 14:15:33 stating the Intervenor had no follow-up; 14:16:11 stating she had been told the water districts were going forward with the protest and there was no reason to negotiate; 14:16:42 stating the Intervenor was "half-hearted" but no support for how Musgove knew the attempt to negotiate in the letters were a "half-hearted" attempt; Noel, at 14:51:30.

<sup>98</sup> *Id.* Musgove, at 14:15:02-14:21:00.

<sup>99</sup> May 5, 2020 H.V.T, Musgove, 9:58:00; 13:54:55-13:55:24; 13:54:44; and 13:56:45 stating that she recognizes some changes she could make; 13:57:09 stating that she was not aware of NARUC recommended depreciation calculations or analysis; 13:57:18 stating that she has "better numbers" now; 13:57:26 stating that "knowing now, what I know" she would make changes to the proposed rate.

Eliminating the Director of Finances salary from the requested rate case expense results in an allowable level of \$75,259.<sup>100</sup> However, the allowable rate case expense should be recovered equally from Princeton and Princeton’s wholesale water customers, which results in a disallowance of a third of the rate case expense. The monthly rate expense surcharge is \$697 per month as calculated in the table below:

Attorney	\$	64,541
Engineering		<u>10,718</u>
Allowable Rate Case Expense		75,259
Divided by Amortization Period		<u>36</u>
Monthly Rate case Surcharge		2,091
Divided by: Participants		<u>3</u>
Monthly Surcharge	\$	<u><u>697</u></u>

MERGER

During the May 5, 2020 hearing, Ms. Musgove testified that the benefits of merger between Princeton and the Intervenors should be explored to realize the savings that could take place by eliminating the duplicity of positions or costs.<sup>101</sup> James Noel, Superintendent of Princeton, testified that there have not been conflicts in the past; however, recently there was an issue with reading county meters between Princeton and Caldwell District.<sup>102</sup> At the hearing, Vice Chairman, Cicero, discussed the possibility of

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<sup>100</sup> \$64,541 (Attorney Fees) + \$10,718 (Engineering) = \$75,259.

<sup>101</sup> May 5, 2020 H.V.T, Musgove, 13:57:50-13:59:05.

<sup>102</sup> May 5, 2020 H.V.T, Noel, 14:51:30-14:52:52.

merger with Jimmy Littlefield, CEO of Caldwell County, and despite admitting that trust issues exist between Caldwell District and Princeton, he agreed to consider merger.<sup>103</sup>

Caldwell District provides water service to approximately 2,100 retail customers.<sup>104</sup> In Case No. 2019-00311, the Commission noted Caldwell District reported a water loss of 12.7 percent in its 2018 Annual Report.<sup>105</sup> Moving 5.4 million gallons of water attributed to unverified sabotage<sup>106</sup> from the category Other Water Used - to the category Water Loss - Other, increases Caldwell District's water loss to 18.2 percent.<sup>107</sup>

Lyon District provides water service to approximately 2,600 retail customers and reports 16.4 percent water loss.<sup>108</sup> Commission records show that Lyon District has not had a base rate case since 1986.<sup>109</sup> The Commission has been placing greater emphasis

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<sup>103</sup> May 5, 2020 H.V.T., Littlefield, 16:15:00.

<sup>104</sup> *Annual Report of Caldwell County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 12 and 49, Caldwell County Water District and Lyon County Water District's Joint Post-Hearing Brief, p 2 (filed May 22, 2020), and *Annual Report of Lyon County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 12 and 49.

<sup>105</sup> Annual Report of Caldwell County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2018 (2018 Annual Report) at 56.

<sup>106</sup> Caldwell District explained that the water reported as sabotage is not being "stolen," but rather fire hydrants that have been opened in various locations in its distribution system. Given that the water is not being used either by Caldwell District, a wastewater treatment facility, or by a fire department, the water lost by Caldwell District due to the claimed sabotage should be recorded in the category "Water Loss - Other."

<sup>107</sup> Case No. 2019-00311, *Application of Caldwell County Water District for Approval to Enter into a Lease Agreement with the Kentucky Association of Counties Leasing Trust for an Approximate Principal Amount of \$1,710,000 for the Purpose of Refinancing Outstanding Obligations* (Ky. PSC Oct. 30, 2019).

<sup>108</sup> *Annual Report of Lyon County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 57.

<sup>109</sup> Case No. 9524, *The Application of Lyon County Water District, Lyon County Kentucky for (1) a Certificate of Public Convenience and Necessity Authorizing Said District to Construct Major Improvements and Extensions to Its Existing Municipal Water Distribution System Pursuant to Provisions of Chapter 74 of the Kentucky Revised Statutes; (2) Seeking Approval of the Issuance of Certain Securities; (3) for an Adjustment of Rates, and (4) Approval to Purchase Lake Barkley Water System, Inc.* (Ky. PSC July 11, 1986).

on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and has strongly encouraged Caldwell District to pursue reasonable actions to reduce its unaccounted-for water loss. Lyon District is strongly encouraged to make significant progress towards reducing its unaccounted-for water loss. Merger between some or all of the utilities involved in this matter may offer some financial support for the operations and water loss goals of the utilities involved.

The Commission also notes that its records indicate that Lyon District has not sought a general adjustment in base rates by any other means than through a financing approval or in conjunction with an application for a Certificate of Public Convenience and Necessity since 2003. While Lyon District has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD), the Commission's review of records in a RD financing case is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. The Commission recently noted that utilities use this practice intentionally to avoid a review of its financial records.<sup>110</sup> Some of the key general recommendations that resulted from the investigation of Commission Case No. 2019-00041 were that water utilities with sustained excessive water loss should, in general, apply for base rate adjustments on a more frequent basis, consider sharing resources, professional consultants, and consider merger.<sup>111</sup> Both Intervenors have water loss in excess of 15 percent. The lack of insight

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<sup>110</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019).

<sup>111</sup> *Id.*

into the Intervenor's financial records, coupled with sustained water loss above the 15% threshold, indicates to the Commission that the Intervenor should each file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of filing of this Order to ensure their respective financial situations are sufficient to combat excessive water loss.

Acknowledging the known difficulties presented when municipalities merge with a jurisdictional utility, the Intervenor should consider merging with Princeton, if not in total, the utilities should consider sharing resources, positions, professional consultants or equipment costs. The utilities have established relationships, and the ratepayers should be aware of the cost savings possible if the utilities work together. At the very least, the boards of Princeton and the Intervenor should review the possibilities of merger as part of a larger inquiry. Ms. Musgove testified that she felt Caldwell's attempt to negotiate was "half-hearted," and Princeton did nothing to pursue further negotiation. She also stated that she "heard" there was no reason to negotiate.<sup>112</sup> Mr. Littlefield testified that he did not feel he could trust Princeton because of the "dishonesty" involved in communications over the master meter ownership and maintenance.<sup>113</sup> The larger benefits of merging could outweigh disagreements over one issue or those conflicts that prove to be related to certain individuals. Despite disagreements over the master meter, Mr. Littlefield agreed he would not rule out the possibility of merger in the future.<sup>114</sup> Merging one or both of the

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<sup>112</sup> May 5, 2020 H.VT., Musgove, 14:16:42–14:19:57.

<sup>113</sup> May 5, 2020, Littlefield, 16:13:15-16:14:06.

<sup>114</sup> *Id.* at 16:14:15-16:15:15.

Intervenors with Princeton may provide solutions to water loss issues and provide significant savings for the ratepayers.

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

1. The rates proposed by Princeton would produce revenues in excess of the amount found reasonable herein and should be denied.

2. Princeton should be permitted to recover \$75,259 for rate case expenses related to engineering and legal fees.

3. The rates set forth in the Appendix B to this Order are fair, just, and reasonable and should be approved for the provision of wholesale water service to Princeton for services rendered on and after June 15, 2020.

4. Princeton District should be authorized to assess a monthly surcharge of \$697 per month to each wholesale water customer for a period of 36 months to recover \$75,259 for rate case expenses.

5. Princeton should file a revised tariff setting out these rates as approved and remove language pertaining to the possibility of a refund if a lower rate is determined from its tariff.

IT IS THEREFORE ORDERED that:

1. The wholesale rates proposed by Princeton are denied.

2. The rates and charges found reasonable herein and set forth in Appendix B and C to this Order are approved for the provision of wholesale water service rendered by Princeton on and after June 15, 2020.



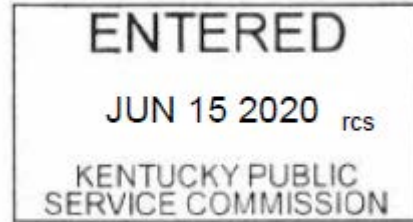
3. Within 20 days of the date of this Order, Princeton shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

4. Any documents filed pursuant to ordering paragraph 3 of this Order shall reference the case number of this matter and shall be retained in the post-case correspondence files.

5. Caldwell District and Lyon District shall file for an adjustment in base rates or file for an alternative rate filing within one year of the date of filing of this Order to ensure that their rates are sufficient.

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

By the Commission



ATTEST:



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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2019-00444 DATED JUN 15 2020

Detailed Pro Forma Income Statement

PRINCETON WATER AND WASTEWATER COMMISSION  
ADJUSTED TRIAL BALANCE - JUNE 30, 2019

Account No.	Description	Test-Year Actual	Pro Forma Adjustments	Allocations	Pro Forma Operations
4000	Water Sales	\$ 1,520,209	\$ -	\$ -	\$ 1,520,209
4015	Customer Service	198,648	(36,120)	-	162,528 A
4020	Penalty Income	58,701	-	(26,973)	31,728
4030	Sale of Stores	11,661	-	(5,358)	6,303
4040	Labor Sales	6,200	-	(2,849)	3,351
4046	Bank Customer ACH	1,403	-	(1,403)	-
4050	Equipment Rental	4,428	-	(2,035)	2,393
4080	Service Charge & Connection Fees	20,575	-	(9,454)	11,121
4087	Recovery of Bad Debt	(2,745)	-	1,261	(1,484)
4095	Pmt Plan Misc Invoices	2,297	-	(1,055)	1,242
	Total Operating Revenues	1,821,377	(36,120)	(47,866)	1,737,391
Administration					
100-6010	Salaries	220,629	30,237	(115,273)	135,593 B
100-6020	Payroll Tax	16,331	2,860	(8,818)	10,373 C
100-6030	Employee Benefits	56,618	(8,851)	(21,949)	25,818 D
100-6040	Uniforms	940	-	(432)	508
100-6050	Training Expense	7,323	-	(3,365)	3,958
100-6060	CERS/Pension/OPEB	73,415	(13,057)	(27,735)	32,623 E
100-6070	Utilities	8,063	-	(3,705)	4,358
100-6080	Gas and Oil	169	-	(78)	91
100-6090	Equipment Repair	2,376	-	(1,092)	1,284
100-6100	Supplies	6,882	-	(3,162)	3,720
100-6110	Insurance	4,278	-	(1,966)	2,312
100-6121	Professional Services	3,085	-	(1,418)	1,667
100-6122	Data Processing	10,270	-	(4,719)	5,551
100-6130	Miscellaneous Expense	3,822	-	(1,756)	2,066
100-6135	Postage	11,268	-	(5,178)	6,090
100-6160	Tools & Small Equipment	4,562	-	(2,096)	2,466
100-6180	Building Repair & Maintenance	3,518	-	(1,617)	1,901

Water Treatment Plant						
200-6010	Salaries	178,041	22,176	-	200,217	B
200-6020	Payroll Tax	13,362	1,955	-	15,317	C
200-6030	Employee Benefits	67,562	(32,712)	-	34,850	D
200-6040	Uniforms	529	-	-	529	
200-6050	Training Expense	359	-	-	359	
200-6060	CERS/Pension/OPEB	64,787	(16,615)	-	48,172	E
200-6070	Utilities	179,933	-	-	179,933	
200-6080	Gas and Oil	786	-	-	786	
200-6090	Equipment Repair	20,008	-	-	20,008	
200-6100	Supplies	2,123	-	-	2,123	
200-6105	Chemicals	81,088	24,618	-	105,706	F
200-6110	Insurance	41,523	-	-	41,523	
200-6120	Lab Fees	14,677	-	-	14,677	
200-6121	Professional Services	20,470	-	-	20,470	
200-6130	Miscellaneous Expense	1,503	-	-	1,503	
200-6135	Postage	869	-	-	869	
200-6160	Tools & Small Equipment	529	-	-	529	
200-6180	Building Repair & Maintenance	5,279	-	-	5,279	
200-6185	Sludge Removal	-	28,133	-	28,133	G
200-6660	Misc. Material Ex	368	-	-	368	
200-6665	Freight Expense	18	-	-	18	
Maintenance						
400-6010	Salaries	251,546	12,018	(121,107)	142,457	B
400-6020	Payroll Tax	18,720	1,443	(9,265)	10,898	C
400-6030	Employee Benefits	99,312	(38,462)	(27,961)	32,889	D
400-6040	Uniforms	2,711	-	(1,246)	1,465	
400-6050	Training Expense	990	-	(455)	535	
400-6060	CERS/Pension/OPEB	86,150	(22,737)	(29,138)	34,275	E
400-6070	Utilities	13,940	-	(6,405)	7,535	
400-6080	Gas and Oil	14,745	-	(6,775)	7,970	
400-6090	Equipment Repair	8,895	-	(4,087)	4,808	
400-6100	Supplies	5,104	-	(2,345)	2,759	
400-6105	Chemicals	40,481	-	(40,481)	-	
400-6110	Insurance	19,348	-	(8,890)	10,458	
400-6121	Professional Services	1,493	-	(686)	807	
400-6130	Miscellaneous Expense	2,183	-	(1,003)	1,180	
400-6135	Postage	154	-	(71)	83	
400-6140	Rental and Lease	667	-	(306)	361	
400-6160	Tools & Small Equipment	10,544	-	(4,845)	5,699	
400-6180	Building Repair & Maintenance	1,219	-	(560)	659	
400-6650	Inventory Expense	21,119	-	(9,704)	11,415	
400-6660	Misc. Material Ex	29,460	-	(13,537)	15,923	
400-6665	Freight Expense	74	-	(34)	40	
400-6670	Capital Cost/Labor	(55,166)	16,091	-	(39,075)	H
Unallocated Commission						
500-6010	Salaries (Commissioners)	9,000	-	(4,136)	4,864	
500-6110	Insurance	4,971	-	(2,284)	2,687	
500-6150	Attorney Fees	10,058	(4,058)	(2,757)	3,243	I
	Operation and Maintenance Expenses	1,725,081	3,039	(502,437)	1,225,683	
500-6680	Depreciation Expense	803,032	(399,288)	-	403,744	J
	TOTAL OPERATING EXPENSES	2,528,113	(396,249)	(502,437)	1,629,427	
Net Utility Operating Income		\$ (706,736)	\$ 360,129	\$ 454,571	\$ 107,964	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2019-00444 DATED JUN 15 2020

Allocation of USDA Series 2019 Bonds

	Project Cost	Overhead Allocations		Allocated Cost Breakdown
		Factors	\$	
Project 1: 16" Water Transmission Lane	1,280,000	60.952%	854,852	2,134,852
Project 2: Water Line Imp. UK Research	378,000	18.000%	252,450	630,450
Project 3: Master Meter Installation	195,000	9.286%	130,236	325,236
Project 4: Skyline Tank Rehabilitation	247,000	11.762%	164,961	411,961
	2,100,000			
Overhead	1,402,500	100.000%	1,402,499	
Project Total	<u>3,502,500</u>			<u>3,502,499</u>
Project 1: 16" Water Transmission Lane				2,134,852
Project 4: Skyline Tank Rehabilitation				411,961
Total to Be recovered from Retail and Wholesale Customers				<u>2,546,813</u>
Divided by: Total Project Cost				3,502,499
Percentage of Loan - Retail and Wholesale Customers				<u>72.714%</u>

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2019-00444 DATED JUN 15 2020

The following rates and charges are prescribed for the customers in the area served by the city of Princeton. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Wholesale Water Rates

Caldwell County Water District	\$ 2.44 Per 100 Cubic Feet
Lyon County Water District	\$ 2.44 Per 100 Cubic Feet
Rate Case Expense Surcharge	\$697.00 Per Month for 36 Months

\*L Allyson Honaker  
Goss Samford, PLLC  
2365 Harrodsburg Road, Suite B325  
Lexington, KENTUCKY 40504

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

\*Dailey E Wilson  
Wilson Law Firm, PLLC  
635 Trade Avenue  
PO Box 460  
Eddyville, KENTUCKY 42038

\*Princeton Water and Wastewater  
101 E. Market Street  
Princeton, KY 42445

\*James Noel  
Superintendent  
Princeton Water and Wastewater  
101 E. Market Street  
Princeton, KY 42445

\*Princeton Water and Wastewater  
Princeton Water and Wastewater  
101 E. Market Street  
Princeton, KY 42445

\*Caldwell County Water District  
118 West Market Street  
Princeton, KY 42445

\*Tracy Musgove  
Director of Finance  
Princeton Water and Wastewater  
101 E. Market Street  
Princeton, KY 42445

\*Lyon County Water District  
5464 U. S. Highway 62 West  
P. O. Box 489  
Kuttawa, KY 42055

\*Mark David Goss  
Goss Samford, PLLC  
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