

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)
ADJUSTMENT FILING OF) CASE NO. 2022-00241
MUHLENBERG COUNTY WATER)
DISTRICT)

MOTION FOR NO MODIFICATION TO
MUHLENBERG COUNTY WATER DISTRICT’S RATES

Muhlenberg County Water District (the “District”), by counsel, moves the Kentucky Public Service Commission (the “Commission”) for an order declaring that no modifications of the District’s rates are necessary at this time. In support of this Motion, the District states as follows:

Background

1. On August 30, 2022, the Commission issued an Order in this matter granting the District’s application for a Purchased Water Adjustment (“PWA”), and ordering the District to file an application for a general rate adjustment, or an application for an alternative rate filing (“ARF”) adjustment, or in the alternative, a formal motion with a detailed analysis of the District’s rates and revenues, explaining the reasons why no modifications are necessary. The Commission imposed an initial deadline of August 31, 2023 for the District to make its filing.

2. In response to the Commission’s Order of August 30, 2022, the District immediately began preparations in anticipation of filing an ARF application by contacting the Kentucky Rural Water Association, Inc. (“KRWA”) to request a proposal to perform a formal rate study (the “Rate Study”). The District approved the KRWA’s proposal to perform a Rate Study on November 28, 2022.

3. Once the District realized that it would be unable to meet the August 31, 2023 filing deadline due to a backlog of cases at the KRWA, the District moved the Commission for a two-month extension of time, until October 31, 2023.

4. In an Order issued by the Commission on September 5, 2023, the Commission granted the District’s motion for an extension of time to file its ARF application until October 31, 2023.

5. On September 25, 2023, the KRWA produced the District’s Rate Study, entitled “Analysis and Recommendations for Water and Sewer Rates.” The Rate Study is attached to this Motion as **Attachment A**. An Excel file provided by the KRWA as a part of the Rate Study is filed separately as **Exhibit A**.

6. To the surprise of the District, the KRWA recommended that the District **not** increase rates at this time based on an analysis of the District’s revenues and expenses, which found that the overall water rate increase needed was merely 1.33 percent.

7. Based on the KRWA's recommendation, the District no longer believes that an ARF application is necessary at this time. Consequently, the District is providing a detailed analysis of its rates and revenues to explain to the Commission why no modifications are presently necessary.

Analysis

8. Attached to this Motion as **Attachment B** is a table showing the District's Comparative Income and Expense Summaries for the past three calendar years. In addition, **Attachment B** includes the Pro Forma results from KRWA's Rate Study (**Attachment A**), which shows a positive cash flow in excess of **\$668,000**.

9. While the District was profitable in four of the five years between 2017 and 2021, it did not fully fund depreciation reserves in any year. This trend continued in 2022. The District's cash balance increased from \$2.3 million at the end of 2021 to \$2.4 million at the end of 2022.

10. Granting this motion does not mean that the District's Board members will forget about the need to closely monitor its financial condition. Indeed, just the opposite is true – the District has already retained KRWA to prepare another Rate Study just as soon as the 2023 PSC Annual Report has been prepared. In these inflationary times when the cost of chemicals, fuel, materials, and labor are

skyrocketing, the District's Board realizes that it needs to review its financial condition at least annually for the foreseeable future.

11. Based upon the analysis above, an immediate adjustment of rates is not required. The District's present rates will produce sufficient revenues to meet all operating expenses and provide for a substantial portion of depreciation expense. Maintaining rates at their present levels for an additional year will not adversely affect the District's financial condition or the quality or reliability of the District's service.

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WHEREFORE, the Muhlenberg County Water District requests that the Commission issue an order approving the District's decision not to modify its rates at this time.

Dated: October 24, 2023

Respectfully submitted,



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CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that this document was submitted electronically to the Public Service Commission on October 24, 2023, and that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding.


Damon R. Talley

ATTACHMENT A

ANALYSIS AND RECOMMENDATIONS FOR WATER AND SEWER RATES

MUHLENBERG COUNTY WATER DISTRICT

September 25, 2023

Prepared by
Ariel Miller



Kentucky Rural Water Association

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EXECUTIVE SUMMARY

Muhlenberg County Water District requested that Kentucky Rural Water Association perform a water rate study and assist with an application to the Public Service Commission using Alternative Rate Filing procedures. The study is complete and the results are presented in this report.

In accordance with PSC regulations, the study is based on the most recent Annual Report on file with the Commission; in this case, the test period is calendar year 2022. The Schedule of Adjusted Operations (SAO) lists the revenues and expenses for 2022 and applies required adjustments. The adjustments are to recognize any changes in operations after the test year and include certain other items that are commonly required by the PSC. The specific adjustments for Muhlenberg County Water District are shown in the respective SAO with notes for each provided on the Reference pages. Total pro forma water operating revenues for 2022 are \$4,327,650 and total pro forma water operating expenses are \$4,178,353.

The SAO also shows the computations for Revenue Requirements. Utilizing the Debt Service Coverage method accepted by the PSC, the total Revenue Required from Water Sales comes to \$4,195,789. This is an increase above existing pro forma sales of \$55,188 and indicates an overall water rate increase of 1.33 percent is needed.

Computations from this study are included in the Schedule of Adjusted Operations with details provided in the Reference pages and Table A. Based on the study, the recommendation is that Muhlenberg County Water District request that the Commission not increase rates at this time. Therefore, there is no calculation of the comparison of current and proposed rates.

SCHEDULE OF ADJUSTED OPERATIONS
Muhlenberg County Water District

	<u>Test Year</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Proforma</u>
<u>Operating Revenues</u>				
Total Metered Retail Sales	3,945,492	70,207	(A)	4,015,699
Sales for Resale	79,362	45,539	(A)	124,901
Other Water Revenues:				
Forfeited Discounts	75,601			75,601
Misc. Service Revenues	65,931			65,931
Other Water Revenues	45,517			45,517
Total Operating Revenues	4,211,903			4,327,650
<u>Operating Expenses</u>				
Operation and Maintenance				
Salaries and Wages - Employees	792,699	(23,453)	(B)	769,246
Salaries and Wages - Officers	18,000			18,000
Employee Pensions and Benefits	623,214	(133,486)	(C)	489,728
Purchased Water	1,488,669	(40,883)	(D)	
		149,913	(E)	1,597,699
Purchased Power	123,292	(3,386)	(D)	119,906
Chemicals	5,490	(151)	(D)	5,339
Materials and Supplies	168,649			168,649
Contractual Services	77,415	15,280	(F)	92,695
Rental of Building/Real Property	121			121
Transportation Expenses	64,284			64,284
Insurance - Gen. Liab. & Workers Comp.	15,921			15,921
Insurance - Other	58,022			58,022
Advertising Expense	1,613			1,613
Bad Debt	36,784			36,784
Miscellaneous Expenses	180,631			180,631
Total Operation and Mnt. Expenses	3,654,804			3,618,639
Depreciation Expense	481,618			481,618
Amortization Expense		8,896	(F)	8,896
Taxes Other Than Income	72,684	(3,484)	(B)	69,200
Total Operating Expenses	4,209,106			4,178,353
Total Utility Operating Income	2,797			149,297

REVENUE REQUIREMENTS

Pro Forma Operating Expenses	4,178,353
Plus: Average Annual Principal and Interest Payments	172,575
Additional Working Capital	34,515
Total Revenue Requirement	4,385,443
Less: Other Operating Revenue	187,049
Interest Income	2,605
Revenue Required From Sales of Water	4,195,789
Less: Revenue from Sales with Present Rates	4,140,601
Required Revenue Increase	55,188
Percent Increase	1.33%

REFERENCES

- A. The Current Billing Analysis results in pro forma retail water sales revenue of \$4,015,699 and pro forma wholesale water sales revenue of \$124,901. This reflects a full year at the water sales rates that were effective in 2022 and indicates an increase to retail water sales of \$70,207 and a increase to wholesale water sales of \$45,539 are required.
- B. Since 2022, there have been changes in wage rates. These changes result in an adjustment to Salaries and Wages of \$23,453. Pro Forma Payroll Taxes were adjusted \$3,484.
- C. Employee Pensions and Benefits were decreased \$133,486 to reflect current Commission precedent regarding employee medical and dental insurance benefits.
- D. Muhlenberg County Water District’s total water loss for 2022 was 17.75 percent. A reduction of \$44,419 to Purchased Water, Purchased Power, and Chemicals is necessary to align with Commission precedent.
- E. Purchased Water was increased \$149,913 to reflect the effects of increased purchased water costs passed through and approved in Case No. 2022-00241.
- F. During 2023, United Systems contacted Muhlenberg County Water District and informed its staff that upgrades would be necessary to continue utilizing their billing software. The cost to install the upgrade was \$44,478, with additional annual maintenance fees of \$15,280. With a five year amortization of the installation costs, an increase to amortization expense of \$8,896 is necessary, and a pro forma adjustment of \$15,280 to contractual services was included.

Table A DEBT SERVICE SCHEDULE Muhlenberg County Water District CY 2023 - 2027											
	CY 2023		CY 2024		CY 2025		CY 2026		CY 2027		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	
Revenue Bonds	250,000	32,133	120,000	23,660	125,000	18,200	135,000	12,512	140,000	6,370	862,875
TOTALS	250,000	32,133	120,000	23,660	125,000	18,200	135,000	12,512	140,000	6,370	\$ 862,875
										Average Annual Principal & Interest	\$ 172,575
										Average Annual Coverage	\$ 34,515

ATTACHMENT B

COMPARATIVE INCOME

AND EXPENSE SUMMARIES

MUHLENBERG COUNTY WATER DISTRICT

	Category	2020	2021	2022	Pro Forma
1.	Operating Revenue	\$ 3,988,647	\$ 4,110,986	\$ 4,211,903	\$ 4,327,650
2.	(Operating Expenses) Excluding Dep.	(3,573,304)	(3,456,161)	(3,728,313)	(3,696,735)
3.	Operating Income Before Depreciation	415,343	654,825	483,590	630,915
4.	(Depreciation Expense)	(501,421)	(476,000)	(481,618)	(481,618)
5.	Operating Income (Loss)	(86,078)	178,825	1,972	149,297
6.	(Interest Expense)	(38,784)	(37,796)	(27,360)	(18,575)
7.	Interest Income	13,138	1,236	2,605	2,605
8.	Miscellaneous - Other Income	14,441	77,020	53,261	53,261
9.	Net Income (Loss)	(97,283)	219,285	30,478	186,588
10.	Add Back Depreciation	501,421	476,000	481,618	481,618
11.	Add Back Extraordinary Expense	-0-	-0-	-0-	-0-
12.	Available Funds	\$ 404,138	\$ 695,285	\$ 512,096	\$ 668,206

Sources: PSC Annual Reports and KRWA Rate Study