

SCHEDULE OF ADJUSTED OPERATIONS
Montgomery County Water District No. 1

	<u>Test Year</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Pro Forma</u>
<u>Operating Revenues</u>				
Total Retail Metered Sales	\$ 345,210	\$ (11,363)	A	
		10,486	B	
		29,437	C	
		13,740	D	\$ 387,511
Other Water Revenues:				
Forfeited Discounts				
Misc. Service Revenues				
Other Water Revenues	43,813	(4,000)	E	39,813
Total Operating Revenues	389,023	38,301		427,324
<u>Operating Expenses</u>				
Operation and Maintenance				
Salaries and Wages - Employees	121,573	(581)	F	
		(1,200)	E	119,792
Salaries and Wages - Officers	7,200			7,200
Employee Pensions and Benefits	23,587	(1,440)	G	
		(1,747)	H	20,400
Purchased Water	143,183	5,703	I	
		11,823	J	
		(2,765)	K	157,944
Materials and Supplies	5,967	(2,800)	E	3,167
Contractual Services - Water Testing	7,470			7,470
Water Testing	3,847			3,847
Transportation Expenses	1,503			1,503
Insurance - Gen. Liability	8,171			8,171
Advertising	800			800
Miscellaneous Expenses	53,335	(220)	E	
		16,224	L	69,339
Total Operation and Mant. Expenses	376,636	22,997		399,633
Depreciation Expense	49,432	6,036	M	55,468
Taxes Other Than Income	11,818	506	N	12,324
Total Operating Expenses	437,886	29,539		467,425
Net Utility Operating Income	\$ (48,863)	\$ 8,761		\$ (40,102)
REVENUE REQUIREMENTS				
Pro Forma Operating Expenses				\$ 467,425
Divide by Operating Ratio				88%
Subtotal				531,165
Add: Average Annual Interest Expense			O	4,861
Total Revenue Requirement				536,026
Less: Interest Income				(138)
Other Operating Revenue				(39,813)
Revenue Required from Rates				496,075
Less: Normalized Revenues from Water Sales				(387,511)
Required Revenue Increase				\$ 108,564
Percentage Increase				28.02%

REFERENCES

- A. The Current Billing Analysis results in pro forma metered sales revenue of \$333,847. This reflects a full year at the retail rates that were effective at the beginning of 2022 and indicates a decrease to reported Metered Water Sale revenues of \$11.363 is required.
- B. Mount Sterling Water and Sewer (Mount Sterling) increased its wholesale water rate from \$3.17 per 1,000 gallons to \$3.40 per 1,000 gallons, effective with water sales made on and after August 1, 2022. In Case No. 2022-00242, Montgomery District No. 1 was authorized to increase its water rates to reflect the impact the wholesale rate increase had on its Purchased Water expense. Applying the rates authorized in Case No. 2022-00242 to Montgomery District's billing analysis results in an increase of \$10,486 to Metered Water Sale revenues.
- C. Pursuant to KRS 278.023, Montgomery District No. 1 requested a Certificate of Public Convenience and Necessity (CPCN) to purchase equipment, requested approval of its financing plan, and approval of its proposed water rates. The water rates authorized in Case No. 2023-00098 applied to Montgomery District's billing analysis results in an increase of \$29,437 to Metered Water Sale revenues.
- D. Mount Sterling increased its wholesale water rate from \$3.40 per 1,000 gallons to \$3.67 per 1,000 gallons, effective with water sales made on and after August 1, 2023. In Case No. 2023-00243, Montgomery District No. 1 was authorized to increase its water rates to reflect the impact the wholesale rate increase had on its Purchased Water expense. Applying the rates authorized in Case No. 2023-00243 to Montgomery District's billing analysis results in an increase of \$13,740 to Metered Water Sale revenues.
- E. In 2022, Montgomery District No. 1 installed four ¾-Inch by 5/8-Inch meters and a single 1-Inch meter. Montgomery District No. 1 collected total tap-on fees of \$4,000, but incorrectly recorded its tap-on fees collected in the revenue account Other Water Revenues. The test-year taps were installed by Montgomery District No. 1 employees and were recorded as labor and materials expenses. To correct the reporting errors, Montgomery District No.

1 is reducing Other Water revenue by \$4,000, reducing Labor expense by \$1,200 or 30 percent of the tapping fees while Materials and Supplies expense is being reduced by \$2,800 or 70 percent of the tapping fees.

- F. Applying the 2023 employee wage rates to Montgomery District No. 1's current staff level of six employees results in a decrease to Employee Salaries and Wages expense of \$581.
- G. Montgomery District No. 1 pays 100 percent of its employees' health and dental insurance premiums. The PSC requires that expenses associated with this level of employer-funded employee benefit premiums be adjusted to be consistent with the Bureau of Labor Statistics' national average for an employer's share of health insurance premiums. Montgomery District No. 1 has only one employee that is currently receiving insurance benefits. Average employer shares from BLS are currently 79 percent for single coverage and the PSC also limits expenses associated with dental insurance premiums to 60 percent for single and family coverages. Applying those percentages to the employee benefit premiums paid in the calendar year 2022 results in a deduction to Employee Pension and Benefit expense of \$1,440.
- H. The County Employee Retirement System's (CERS) employer contribution rate that became effective on July 1, 2023 is 23.34 percent. Only two of Montgomery District's employees currently qualify to participate in CERS. Applying the salaries for the qualifying employees of \$59,844 to the current employer CERS rate of 23.34 percent results in a decrease to Employee Pensions and Benefit expense of \$1,747. For financial reporting purposes Montgomery District uses the modified cash basis method. Therefore, Montgomery District No. 1 is not required to comply with the GASB 68 reporting requirements for its retirement plan liabilities.
- I. Applying Mount Sterling's August 1, 2022 wholesale water rate of \$3.40 per 1,000 gallons, to test-year water purchases of 43,790,000 Gallons results in an increase to test year Purchased Water expense of \$5,703.
- J. Applying Mount Sterling's August 1, 2023 wholesale water rate of \$3.67 per 1,000 gallons, to test-year water purchases of 43,790,000 Gallons results in an increase to test year Purchased Water expense of \$11,823.

- K. Montgomery District No. 1's test year water loss was 16.72 percent. The PSC's maximum allowable loss for rate-making purposes is 15.0 percent. Therefore, the expenses for Purchased Water and Power related to water purchased and pumped above the 15 percent limit are not allowed in the rate base and must be deducted.
- L. Miscellaneous expense is being increased by \$16,224 to reflect the UPM annual software fee.
- M. The PSC requires adjustments to a water utility's depreciation expense when asset lives fall outside the ranges recommended by NARUC in its publication titled "Depreciation Practices for Small Utilities". Therefore, adjustments are included to bring asset lives to the midpoint of the recommended ranges. An adjustment is also included for the new meters installed in 2022 and the radio read meters authorized in Case No. 2023-00098. See Table A.
- N. Applying the Federal Insurance Contributions Act (FICA) tax rate of 7.65 percent to pro forma Salaries and Wages expense subject to the withholdings of \$128,192 results in a \$506 increase in test-year payroll tax.
- O. The annual interest payments for the Montgomery District No. 1's Rural Development bonds are shown in Table B. The five-year average of these payments is added in the revenue requirement calculation.

Table A
DEPRECIATION EXPENSE ADJUSTMENTS
Montgomery County Water District No. 1

Account Title	UPIS	2022	Dep. Lives		NARUC	NARUC
	Balance	Dep. Exp.	District	NARUC	Dep. Lexp	Dep. Adj.
Land & Land Rights	\$ 102,609					
Structures & Improvements	285,597.13	\$ 8,159.92	35	38	\$ 7,615.92	\$ (544)
Structures & Improvements	13,193.36	376.95	35	38	351.82	(25.00)
Collecting & Impounding Reservoirs	22,788.00	0.00	30	63	0.00	0.00
Supply Mains	21,511.00	1,075.55	20	63	344.18	(731.00)
Pumping Equipment	17,808.00	434.34	41	20	890.40	456.00
Distributions Reservoirs & Standpipes	182,531.00	0.00	30	45	0.00	0.00
Transmission & Distribution Mains	1,874,765.42	31,246.09	60	63	29,996.25	(1,250.00)
Meters & Meter Instalations	143,815.19	4,793.84	30	40	3,595.38	(1,198.00)
Meters & Meter Instalations	3,300.31	110.01	30	40	82.51	(28.00)
Meters & Meter Instalations	1,170.66	39.02	30	40	29.27	(10.00)
Meters & Meter Instalations	120.00	4.00	30	40	3.00	(1.00)
Meters & Meter Instalations	1,539.24	51.31	30	40	38.48	(13.00)
Meters & Meter Instalations	2,562.00	85.40	30	40	64.05	(21.00)
Meters & Meter Instalations	3,556.00	118.53	30	40	88.90	(30.00)
Meters & Meter Instalations	9,441.65	314.72	30	40	236.04	(79.00)
Meters & Meter Instalations	14,366.00	239.00	30	40	359.15	120.00
Test-Year Meters	4,000.00	0.00		40	100.00	100.00
AMR (Radio Read) Meters - CN 2023-000298	187,000.00	0.00		20	9,350.00	9,350.00
Hydrants	4,313.00	143.77	30	50	86.26	(58.00)
Office Furniture and Equipment	17,029.00	0.00	5	23	0.00	0.00
Office Furniture and Equipment	19,361.02	0.00	5	23	0.00	0.00
Computer Software	11,335.00	0.00	3	10	0.00	0.00
AMR (Radio Read Software) - CN 2023-000298	2,560.00	0.00		11	256.00	256.00
Transportation Equipment	18,026.87	0.00	5	7	0.00	0.00
Misc. Equipment	36,387.00	0.00	7	13	0.00	0.00
Misc. Equip. (Mower 4/2021)	7,574.00	1,082.00	7	13	605.92	(476.00)
Misc. Equip. (Hand Held 10/2021)	6,453.68	921.95	7	13	516.29	(406.00)
Misc. Equipment (Mobile Reciever) - CN 2023-000298	8,750.00	0.00		13	700.00	700.00
Misc. Equip. (Water Pump)	1,307.99	186.86	7	13	104.64	(82.00)
Misc. Equip. (Water Pump)	678.36	48.50	7	13	54.27	6.00
	<u>\$ 3,025,449.88</u>	<u>\$ 49,431.76</u>			<u>\$ 55,468.73</u>	<u>\$ 6,036.00</u>

Table B
DEBT SERVICE SCHEDULE
Montgomery County Water District No. 1
 CY 2024 - 2028

Loan No. 91-01

C.Y.	Principal	January Interest	July Interest	Annual Debt Service
2024	\$ 3,500	\$ 2,531	\$ 2,492	8,523
2025	3,500	2,492	2,453	8,445
2026	4,000	2,453	2,413	8,866
2027	4,000	2,413	2,368	8,781
2028	4,000	2,368	2,323	8,691
TOTALS	\$ 19,000	\$ 12,257	\$ 12,049	\$ 43,306
5 Year Avg	\$ 3,800	\$ 2,451	\$ 2,410	\$ 8,661