

## Reasons for Application

Upon review of its current financial condition, Cannonsburg District determined that it requires an increase in its base water rates. Cannonsburg District is requesting a 16.72 percent rate increase for all of its water customers. The rate increase will generate approximately \$418,539 in additional annual revenue from water sales.

In the March 19, 2019 Commission Staff Report issued in Case No. 2018-00376, the Commission Staff explained that because of the lenders coverage requirements, the Commission historically used the Debt Service Coverage (DSC) methodology to calculate the revenue requirement for water districts and associations. However, the DSC methodology did not produce a revenue requirement sufficient to support Cannonsburg District's financial operations. Therefore, Commission Staff proposed, and the Commission accepted the use of the operating ratio method to calculate Cannonsburg District's revenue requirement.

The District has only three long-term debt issuances outstanding. Basing the District's revenue requirement on an 88 percent Operating Ratio produces a working capital allowance sufficient to allow the District:

1. To pay its annual principal payments on its existing long-term debt from water revenues rather than from depreciation reserves;
2. To meet the requirements set forth in its existing debt instruments;
3. To restore the District to a sound financial condition; and
4. To enable the District to enhance its financial capacity so it can continue to operate its system in compliance with the federal Safe Drinking Water Act, as amended in 1996, and KRS Chapter 151.