ATTACHMENT 2

REASONS FOR APPLICATION

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(In the space below list all reasons why the Applicant requires a rate adjustment. Describe any event or occurrence of significance that may affect the Applicant's present or future financial condition, including but not limited to excessive water line losses, regulatory changes, major repairs, planned construction, and increases in wholesale water costs.)

Please see the Reasons for Application attached hereto.

Introduction

Navitas KY NG, LLC [‘Navitas’ or ‘the Company’] is pursuing a rate case for its operations in Kentucky. This rate case is seeking substantial changes to its current rates both in figures and in structure, changes to its terms and conditions, and other such tariff changes that may be required or necessary to ensure the continued safe and viable operation of the utility or otherwise ordered by the Kentucky Public Service Commission [‘KYPSC’].

The rate change in this filing is submitted in accordance with the small company cost of service method under the rules and regulations of the KYPSC. The schedules, which are defined in the rules for the small company cost of service method, indicate a significant increase in revenue requirement.

Navitas concurs with the results of the schedules submitted herein as necessary and prudent in order to continue the safety, service, and viability, of the utility. As the results of the schedules indicate a quite significant increase in revenue requirement, the Company submits the discussion below which seeks to examine the reasons underlying the substantial increase in tariff rates.

Time

A significant major factor in the change in revenue requirement is the time which has passed since the last rate case(s) (For clarity of this discussion and throughout this narrative analysis, a rate case is defined as a full revenue requirement changing preceding, as opposed to a rate proceeding that changes a particular aspect of the tariff without said full review.)

The last full rate case affecting the Floyd and Johnson County service areas was filed in 2015, nearly a decade ago. The last rate case affecting the Clinton County service area was filed in 1995, nearly thirty-years ago.

Inflation

While the change in CPI since 2015 is 33% and since 1995 is over 100% it is more than the total change driving the rates. For years, Navitas was able to manage small adjustments in CPI, e.g. – inflation, without frequent rate cases. In fact, Navitas had not pursued a rate case in Kentucky during its ownership tenure, which began in 2012.

Rather, through a combination of cost control and judicious grow it was able to effectively manage low rates of inflation without rate increases. Notably, a key component of the low inflation environment of the prior number of decades was the availability of low-cost funding which allowed the Company to bridge between growth events where rate cases would otherwise be warranted.

A further factor in tempering the pursuit of rate cases is the significant costs, some tens of thousands of dollars to third parties as well as substantially all of the available administrative resources of a small utility for a considerable time. Realistically, for a small utility, undertaking a rate filing essentially excludes all growth pursuits during the rate case time frame.

Unfortunately, the proximate rapid and dramatic rise in inflation not only impacts traditional utility operation, it also precludes the use of the management techniques outlined above. Moreover, it severely impacts the ability to pursue growth events, further belying the previous methodology.

Significant high inflation is likely the most challenging operational environment for a small utility. Moreover, with most capital tied up in prior projects, surviving rapid onset inflation is particularly challenging.

Inflation impacts most, if not all, of Navitas'non-pass-through cost centers including payroll, equipment costs, material costs, service vendor costs, capital costs, and ad valorem costs. While at the same time it typically has a negative effect on non-commodity revenue as customers seek to reduce usage to limit their own inflationary challenges.

Regulatory Changes

Navitas has experienced a number of major regulatory enhancements during its tenure. For example, the implementation of DIMP (Distribution Integrity Management Plan) in the last decade. On an ongoing basis, DIMP involves most of the time of one of our employees, a significant portion of time of another employee, as well as incremental time of many of our employees, to train, document, update, and submit the required compliance. As a small utility this works out to approximately $1.50 per customer per month; a cost that did not exist a decade ago.

Additional current major regulatory initiatives include fugitive emissions tracking and digital infrastructure mapping. Examining the latter, while digital infrastructure mapping is not currently strictly mandated, it is reasonably clear that it is going to be made a requirement. Thus, Navitas has implemented gathering of digital mapping data. This Company effort achieves two functions, 1) when mapping is made mandatory, the data set will reduce the cost of formal implementation; and 2) given the cost of technology declines over time, delay in full implementation while preparing for its eventual mandate has the effect of reducing the final cost of system digital mapping. Nonetheless, there is a small incremental cost to the digital mapping in the form of recording devices and task time expenditure.

Regulatory task time expenditure is an important concept. While any one mandate involves marginal time expenditure, cumulatively it does add up. A particular example of this is Navitas now has an employee largely dedicated to the submission of mandatory reports to various jurisdictional and federal agencies (i.e. – KYPSC, FERC, etc.). While only a portion of this employee's cost is attributable to the Kentucky jurisdiction, it likely approximates $2.00 per customer per month. Between inflation and regulatory changes this cost has likely doubled in the past decade.

A further issue particular to Navitas is that the systems it acquired in Kentucky were marginally served and maintained systems, often from operators for whom the utility was an ancillary business such as a contractor or municipality. Typical of these types of situations are a lack of compliance with State and Federal regulations, as well as a failure to prudently operate the utility systems. Navitas was required to implement past regulatory requirements and expend capital to upgrade and improve acquired pipeline systems. It necessarily costs more to operate a utility in a prudent manner.

Aging Infrastructure

As discussed above,

other than greenfield systems constructed by the Company, including the $1.6MM nine-mile extension to the chicken processing facility in Clinton County, Kentucky, all of the existing infrastructure on Navitas' systems have required capital improvements. Particularly common is the need to change out aging customer meters. A further common need is a lack of isolation valves to allow portions of sub-systems to be independently shutdown.

Even modern poly systems first installed in the mid-eighties are now at the end of their depreciable life and showing their age. To say nothing of early poly, PVC, or steel systems which are far further into their lifespan.

Customer Density

While not universally true but generally the case, the cost of operating the Navitas systems is greater than the cost of operating major utility systems (defined as greater than 25,000 customers) on a per customer or per unit sold basis. This is attributable to the extreme small density of the Navitas systems versus the major utility systems. On a customer per mile of pipe basis, Navitas has an average of 4 whereas major utilities often exceed 60 on average.

This is largely a result of the rural nature of Navitas' customers. The largest town served by the Company is Albany, Kentucky with a population of approximately 3,500.

Thus, every line locate, leak check, meter read, system patrol, meter set, maintenance effort, or any other field service related activity takes longer due to this lower density. Navitas is not able to gain the economies of scale enjoyed by the high-density systems of the major utilities. A further example of this is often major utilities have in excess of 1500 customers per field service person, whereas Navitas is less than 500 customers per field service person. For Navitas there is just not 1500 customers to be had in any one field service territory.

Growth and Supply

Historically, since the end of World War II, rural America has been losing population. For a very long-time, in any one-year, approximately 2% of the existing population departed the local. However, beginning in the mid 2010's and accelerating with COVID, Navitas has experienced growth in certain of its rural areas.

Navitas postulates this growth was initially attributed to semi-retired or newly retired people who desired to leave the city life of metro areas such as Lexington and move to small towns, or rural communities. This accelerated with remote work and the advent of ranchettes and boutique sustainable farming.

This growth, particularly in Clinton County, Kentucky has created supply constraints. This in turn necessitate investment in additional capacity involving capital and resource expenditures.

Allocations

The KYPSC or any intervenor in this matter may find it useful to understand how and why Navitas' parent company employs a particular method of allocation. Approximately a decade ago, shortly after acquiring the Gasco systems in Tennessee from the U.S. Bankruptcy Court, Navitas' sister company pursued a rate case in that jurisdiction. At that time, it was recommended to Navitas' parent company by the Attorney General of Tennessee, and then subsequently so ordered by the Tenneesee Commission, that Navitas' parent company use what is called the Atmos method for allocation of costs between, at that time, three states being served (Kentucky, Oklahoma, and Tennessee).

The Atmos method uses the following formula for allocation: fifty-percent times the percentage of customers in the jurisdiction plus 50% times the plant in the jurisdiction. Thus, once a year Navitas determines an allocation percentage to each jurisdiction and then on a monthly basis apportions out its indirect costs (Direct costs are not allocated, but are borne fully by the jurisdiction in which they are incurred.).

This methodology has been reviewed by the Tennessee Commission in a subsequent rate case and then also examined and accepted by the Oklahoma Commission in two rate cases.

Conclusion

As briefly outlined above, Navitas has been impacted by a host of issues: significant time (decades) since the last rate case, quite steep and rapid onset inflation, sweeping regulatory enhancements, aging infrastructure, supply constraints, and a number of other factors.

Due to the issues outlined above, and supported by the schedules provided with this filing, Navitas submits the requested rates are fair, just, and reasonable.

Phase In Proposal

While the rate changes supported by the schedules are fair, just, and reasonable, for the safe and prudent operation of the utility, Navitas is sensitive to the needs of customers to budget for increases and adjust spending accordingly. Therefore, Navitas is proposing to phase in rates over a four-year period.

This phase in will occur in four total steps. The first three steps: 1) upon a final order in 2025, 2) in January 2026, and 3) in January 2027, will bring rates to the required rate case revenue. Then a final step: 4) in January 2028 will set rates such that the summation of the revenues collected over the seven-year period from 2025 through 2031 will average to the annual revenue requirement, allowing Navitas to fully recover the full revenue requirement.

This four-step phase in of the rate increase caused by the revenue requirement will allow consumers to adjust their budgets over a long period of time. Moreover, it also will have the effect of placing further near-term inflationary risk on Navitas. As were inflation to warrant implementation of an additional rate case finalized prior to the end of 2031, Navitas will be in the position of foregoing revenue requirements to which in hindsight it otherwise could have collected.