

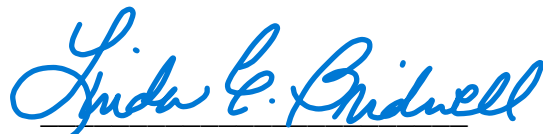
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SHARPSBURG)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2022-00348
PURSUANT 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of November 22, 2022, the attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's November 22, 2022 Order, Sharpsburg Water District (Sharpsburg District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of this report. The Commission directs Sharpsburg District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED MAR 27 2023

cc: Parties of Record

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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COMMISSION STAFF'S REPORT
ON SHARPSBURG WATER DISTRICT

Sharpsburg Water District (Sharpsburg District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 1,538 residential customers and 22 commercial customers that reside in Bath and Nicolas counties, Kentucky.¹

On October 28, 2022, Sharpsburg District filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Orders in Case No. 2021-00189 and 2022-00273. Initially, Sharpsburg District was required to file an application for a traditional adjustment in its rates or an alternative rate adjustment no later than May 27, 2022.² On April 20, 2022, and May 5, 2022, Sharpsburg District filed motions in Case No. 2021-00189, requesting an extension until November 27, 2022, to file its application. Sharpsburg District first argued that it intended to rely on its 2021 audit for its application and, second, that it had contacted Kentucky Rural Water Association on April 11, 2022, for assistance

¹ *Annual Report of Sharpsburg Water District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

² Case No. 2021-00189, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (Ky. PSC May 27, 2021) at 6, ordering paragraph 5.

in filing its application. On June 3, 2022, the Commission denied Sharpsburg District's motions for an extension to file its application and ordered Sharpsburg District to file its application as soon as possible.³ Similarly, the Commission subsequently ordered Sharpsburg District to file an alternative rate filing or a motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary in Case No. 2022-00273.⁴ Commission Staff notes that Sharpsburg District, in effect, received the benefit of an extension to file this alternative rate filing. Sharpsburg District's application was filed approximately five months after the initial May 27, 2022 deadline established in Case No. 2021-00189.

Sharpsburg District last sought a base rate increase pursuant to the alternative rate filing procedure in Case No. 2010-00128.⁵ Since that matter, Sharpsburg District has only adjusted its rates pursuant to purchased water adjustments and financing approval.

WATER LOSS

Commission Staff notes that in its 2021 Annual Report, Sharpsburg District reported a water loss of 23.06 percent.⁶ Commission regulation 807 KAR 5:066 Section 6(3) states that for ratemaking purposes a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own

³ Case No. 2021-00189, (Ky. PSC June 3, 2022) at 2, ordering paragraph 2.

⁴ Case No. 2022-00273, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (Ky. PSC Sep. 13, 2022) at 6, ordering paragraph 5.

⁵ Case No. 2010-00128, *Application of Sharpsburg Water District for an Adjustment of Water Rates*, (Ky. PSC May 6, 2010).

⁶ 2021 Annual Report at 57.

operations. The annual cost to Sharpsburg District for water loss above the allowable 15 percent is \$33,184.⁷ Sharpsburg District's total annual cost of water loss is \$94,942.⁸

DISCUSSION

To comply with the requirements of 807 KAR 5:076, Section 9,⁹ Sharpsburg District used the calendar year ended December 31, 2021, as the basis for its application. Using its pro forma test-year operations, Sharpsburg District determined that a revenue increase of \$161,122, or 18.07 percent over test-year normalized revenues of \$891,425, was warranted¹⁰ as shown in the table below. The rates requested by Sharpsburg District would increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$7.38 from \$40.86 to \$48.24, or approximately 18.06 percent.¹¹

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	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 391,158	\$ 20,560	\$ 411,718
Multiplied by: Water loss Above 15 Percent	-8.06%	-8.06%	-8.06%
Excess Water Loss Reductions	<u>\$ (31,527)</u>	<u>\$ (1,657)</u>	<u>\$ (33,184)</u>

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	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 391,158	\$ 20,560	\$ 411,718
Multiplied by: Total Water loss	-23.06%	-23.06%	-23.06%
Total Water Loss	<u>\$ (90,201)</u>	<u>\$ (4,741)</u>	<u>\$ (94,942)</u>

⁹ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measureable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

¹⁰ Application, Attachment 4, 04_SAO_w_Attachments.pdf.

¹¹ Application, Attachment 1, 01_Customer_Notice.pdf, Customer Notice.

	<u>Sharpsburg Water District</u>
Pro Forma Operating Expenses	\$965,896
Plus: Avg. Annual Principal and Interest Payments	83,120
Additional Working Capital	<u>16,624</u>
Total Revenues Requirement	1,065,640
Less: Other Operating Revenue	(12,902)
Interest and Dividend Income	<u>(191)</u>
Revenue Required from Water Sales	1,052,547
Revenue from Sales at Present Rates	<u>(891,425)</u>
Required Revenue Increase	<u>\$161,122</u>
Percentage Increase	<u>18.07%</u>

To determine the reasonableness of the rates requested by Sharpsburg District, Commission Staff performed a limited financial review of Sharpsburg District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable¹² changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

¹² Commission regulation 807 KAR 5:076, Section 9 sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *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 Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 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).

Commission Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Sharpsburg District's Overall Revenue Requirement. Elizabeth Stefanski reviewed Sharpsburg District's reported revenues and rate design.

SUMMARY OF RECOMMENDATIONS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff determined that Sharpsburg District's required revenue from water sales is \$1,060,858 to meet the Overall Revenue Requirement of \$1,074,203 and that a \$159,111 revenue increase, or 17.64 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon its application, Sharpsburg District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 18.07 percent. Sharpsburg District did not perform a cost of service study (COSS). Sharpsburg District stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS.¹³

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by Sharpsburg District and allocated the \$159,111 revenue

¹³ Sharpsburg District's Responses to Commission Staff's First Request for Information (Staff's First Request), (filed Jan. 31, 2023), Item 13.

increase across the board to Sharpsburg District's monthly retail and wholesale water service rates.

The rates set forth in Appendix A to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$1,060,874 Revenue Required from Water Sales, an approximate 17.64 percent increase. These rates will increase a typical residential customer's monthly water bill from \$40.86 to \$47.99, an increase of \$7.13, or approximately 17.45 percent.¹⁴

3. Nonrecurring Charges. Following the Commission's recent decisions,¹⁵ Commission Staff reviewed Sharpsburg District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, and that the compensation is already recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges to avoid double recovery of the same expense. Sharpsburg District provided cost justification information for the Nonrecurring Charges.¹⁶ Sharpsburg District provided a cost justification sheet for Service Call After Hours,¹⁷ which

¹⁴ $\$47.99$ (Average Bill New Water Rates) - $\$40.86$ (Average Bill Current Water Rates) = $\$7.13$ (Total Difference in Customer Bill) \div $\$40.86$ (Average Bill Current Water Rates) = 17.45%.

¹⁵ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

¹⁶ Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 6.

¹⁷ Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 6, SWD1_6_-_Serv_Calls_After_Hrs.pdf.

appears in the current tariff as 'After Hours Turn On Charge'. The Service Call After Hours cost justification sheet provides for after-hours labor of \$35.19, office labor of \$16.24 and transportation expense of \$16.38,¹⁸ in which Commission Staff removed only the office labor costs.¹⁹ Sharpsburg District provided a cost justification sheet for Meter Test Charge²⁰ in which transportation costs were reported as \$52.40, which was higher than the transportation amount of \$16.38 reported on the 'Service Call/ Field Collection/ Meter Re Read'²¹ cost justification sheet. Sharpsburg District explained that mileage for the Meter Test Charge is 80 miles, while the service call and service calls after-hours is 25 miles.²² The Meter Test Charge also includes a Service Call fee, which was reduced to \$16.50 when labor was excluded.²³ Commission Staff reviewed all the cost justification information provided by Sharpsburg District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those charges that occur during normal business hours and other adjustments referenced above. Such adjustments result in the following revised Nonrecurring Charges:

¹⁸ <https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2023-business-use-increases-3-cents-per-mile>; \$16.38 (25 miles at \$0.655 per mile).

¹⁹ Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 6, SWD1_6_-_Serv_Calls_After_Hrs.pdf.

²⁰ Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 6, SWD1_6_-_Meter_Test.pdf.

²¹ Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 6, SWD1_6_-_Service_Calls.pdf.

²² Sharpsburg District's Responses to Commission Staff's Second Request for Information (Staff's Second Request), (filed Feb. 24, 2023), Item 6.

²³ Meter Test of \$89.40 = Service Call / Investigation, \$17, plus Meter test cost, \$20, plus Transportation cost, \$52.40 (80 miles at \$0.655 per mile).

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Service Call After Hours	\$25.00	\$52.00
Field Collection Charge	\$20.00	\$17.00
Meter Re-Read Charge	\$20.00	\$17.00
Meter Test Charge	\$20.00	\$89.00
Service Call/Investigation	\$20.00	\$17.00
Reconnect Charge	\$25.00	\$17.00
Returned Check Charge	\$20.00	\$5.00
Late Payment Charge	10%	10%

PRO FORMA OPERATING STATEMENT

Sharpsburg District's Pro Forma Operating Statement for the test year ended December 31, 2021, as determined by Staff, appears below.

	<u>Test Year</u>	<u>Adjustment</u>	<u>(Ref.)</u>	<u>Pro Forma</u>
Operating Revenues				
Total Metered Water Sales	\$ 864,045	\$ 58,710	(A)	
		(23,240)	(B)	\$ 899,515
Bulk Loading Stations	<u>2,532</u>	<u>(284)</u>	(A)	<u>2,248</u>
Total Normalized Revenues from Sales				901,763
Other Water Revenues				
Forfeited Discounts		23,240	(B)	23,240
Misc. Service Revenues				
Other Water Revenues	38,962	(24,755)	(C)	
Nonrecurring Charges	<u></u>	<u>(1,069)</u>	(D)	<u>13,138</u>
Total Operating Revenues	<u>905,539</u>	<u>32,602</u>		<u>938,141</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	169,324	33,951	(E)	
		(8,868)	(F)	
		(8,190)	(G)	186,217
Salaries and Wages - Officers	41,767	(33,951)	(E)	
		709	(H)	8,525
Employee Pensions and Benefits	23,432	3,616	(I)	27,048
Purchased Water	372,328	18,830	(J)	
		(31,527)	(K)	359,631
Purchased Power	20,560	(1,657)	(K)	18,903
Materials and Supplies	101,047	(19,110)	(G)	81,937
Contractual Services- Accounting	6,450			6,450
Rental of Equipment	2,350			2,350
Transportation Expenses	-	2,979	(L)	2,979
Insurance- Other	22,265			22,265
Miscellaneous Expense	<u>73,995</u>	<u></u>		<u>73,995</u>
Total Operation and Maintenance Expenses	833,518	(43,218)		790,300
Depreciation	133,792	21,668	(M)	155,460
Taxes Other Than Income	44,008	(25,581)	(N)	
	<u></u>	<u>15,524</u>	(O)	<u>33,951</u>
Utility Operating Expenses	<u>1,011,318</u>	<u>(31,607)</u>		<u>979,711</u>
Net Operating Income	(105,779)	64,209		(41,570)
Connection Fees Income	24,500	(24,500)	(P)	-
Interest and Dividend Income	<u>191</u>	<u></u>		<u>191</u>
Income Available to Service Debt	<u>\$ (81,088)</u>	<u>\$ 39,709</u>		<u>\$ (41,379)</u>

(A) Billing Analysis. Sharpsburg District made an adjustment of (\$7,849) to Metered Water Sales for billing errors and provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application, with total metered water sales revenue reported as \$891,425.²⁴ Sharpsburg District's Current Billing Analysis lists Apartment Meter revenue of \$9,476²⁵ in the billing analysis, but erroneously excludes the revenue amount from the Total Retail Sales revenue. Sharpsburg District provided detailed information about the Apartment Meter revenue, stating that the rate listed is based on a single property containing 32 units, each of which is billed separately at the 5/8-Inch x 3/4-Inch Meter rate minimum.²⁶ Commission Staff recommends that Sharpsburg District update the tariff page titled "Multiple Users on One Meter" by specifying that each unit will be charged the rate listed as 'First 2,000 Gallons Minimum Bill' based on the 5/8-Inch x 3/4-Inch Meter tier, and directing readers to the correct Rates and Charges tariff sheet. Commission Staff calculated a normalized revenue amount based on the statistics compiled in the table below, which include net billing errors of (\$7,849),²⁷ which is based on the data provided by Sharpsburg District in response to Commission Staff's First Request for Information, equaling a normalized revenue of \$901,763. Sharpsburg District proposed an adjustment to decrease Bulk

²⁴ Application, Attachment 5, 2021 Current Billing Analysis at 1.

²⁵ Application, Attachment 5, 2021 Current Billing Analysis at 1.

²⁶ Supplemental Information, Multiple_User_Response.pdf, (filed Mar. 20, 2023).

²⁷ Sharpsburg District's Responses to Staff's First Request (filed Jan. 31, 2023), Item 15.e, SWD1_15.e_-_Billing_Adjustments.pdf.

Loading Station revenue by \$284²⁸ based on the billing analysis data.²⁹ Commission Staff agrees with the adjustment to Bulk Loading Station revenue.

Meter Size	Bills	Gallons Sold	Revenue
5/8 Inch	20,881	78,468,600	\$892,977
1 Inch	88	1,786,300	\$13,115
2 Inch	11	19,700	\$1,272
	20,980	80,274,600	\$907,364
Less: Billing Adjustments			(7,849)
Billed Revenue			\$899,515
Plus: Bulk Loading Station			\$2,248
Normalized Revenue from Rates			\$901,763

During the test year, Sharpsburg District recorded \$23,240 in forfeited discounts as Retail Water Sales revenue.³⁰ Sharpsburg District reported Total Metered Water Sales of \$866,577 in its 2021 Annual Report.³¹ Sharpsburg District did not report any Forfeited Discount revenue in its 2021 Annual Report. Commission Staff reclassified the late payment charges of \$23,240 by decreasing Total Metered Sales and increasing Other Water Revenue by those amounts. The adjustment to balance the Adjusted Test Year amount and the Normalized Revenue amount is an increase to Metered Water Sales of \$58,710 and a decrease to Bulk Loading Station Revenue of \$284.

(B) Forfeited Discounts. Sharpsburg District provided detailed information about the late fee revenue and occurrences for the test year of 2021, as well as the

²⁸ Application, Attachment 4, References at 1, Adjustment A.

²⁹ Application, Attachment 5, 2021 Current Billing Analysis at 1.

³⁰ Sharpsburg District's Responses to Staff's First Request (filed Jan 31, 2023), Item 3.

³¹ 2021 Annual Report at 49.

calendar years of 2020, 2019, 2018, and 2017. Sharpsburg District collected \$23,240 in late fee revenue in the test year of 2021, \$5,951 in 2020, \$24,332 in 2019, \$24,723 in 2018 and \$23,237 in 2017.³² All late fee revenue was reported as Total Metered Water Sales. Therefore, since late payment revenue was included in test year revenue from rates, Commission Staff decreased Total Metered Water Sales by \$23,240 as further explained in Adjustment (A) above. As a result, Commission Staff increased Other Water Revenue-Forfeited Discount by \$23,240 and decreased Metered Water Sales revenue by \$23,240.

(C) Other Water Revenue. In 2021, Sharpsburg District reported \$38,962 in Other Water Revenue.³³ Sharpsburg District proposed an adjustment of (\$26,060) to Other Water Revenue in its application, which included \$23,803 in Utility Tax collections and \$2,257 in Truck Sales, which should not be included in the operating revenue.³⁴ In response to Commission Staff's First Request for Information, Sharpsburg District provided detailed information about the test year Other Water Revenue amount of \$38,962, which included the misclassified items totaling \$26,060,³⁵ Inventory of \$25, Sewer Administration of \$7,977, Miscellaneous Income of \$2,790,³⁶ \$1,020 for Reconnect Fees, and \$1,090 for Returned Check Charges.³⁷ Sharpsburg District also provided a

³² Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 3, SWD1_3_-_Late_Fee.pdf.

³³ 2021 Annual Report at 49.

³⁴ Application, Attachment 4, Adjustment B.

³⁵ Sharpsburg District's Responses to Commission Staff's First Request, Item 14.

³⁶ Sharpsburg District's Responses to Commission Staff's Second Request for Information (Staff's Second Request), (filed Feb. 24, 2023), Item 4c, SWD2_4.C-Misc_Income.pdf.

³⁷ Sharpsburg District's Responses to Commission Staff's First Request, Item 14.

detailed list of test year nonrecurring charges, which included \$3,275 in Reconnect Fees and \$200 in Returned Check Charges.³⁸ Commission Staff requested clarification about the differing amounts listed for the Reconnect Fees and the Returned Check Charges. Sharpsburg District responded that the correct amount for Reconnect Fees is \$3,270,³⁹ and the correct amount for Returned Check Charges is \$144.75.⁴⁰ Commission Staff calculated an adjustment of (\$24,755) to Other Water Revenue, which includes the \$26,060 in misclassified tax and sales revenue, as well as the reconciliation of the Reconnect Fees and Returned Check Charges, as can be seen in the table below.⁴¹

OTHER WATER REVENUE	Sharpsburg	Pro Forma Adjustment	Staff Pro Forma
Inventory	\$ 25		\$25
Misc. Income	2,790		\$2,790
Reconnect Fees	1,020	\$2,250	\$3,270
Returned Check Charges	1,090	(\$945)	\$145
Sewer Administration	7,977		\$7,977
Truck Sales Income	2,257	(\$2,257)	\$2,257
Utility Tax Income	23,803	(\$23,803)	\$23,803
Subtotal	\$38,962		\$40,267
Less: Truck Sales & Taxes ADJ. B	(\$26,060)		(\$26,060)
Pro Forma Amount	\$12,902		\$14,207
STAFF Adjustment Amount		(\$24,755)	

(D) Nonrecurring Charges. Sharpsburg District provided detailed information about the nonrecurring charges revenue,⁴² and Commission Staff calculated an

³⁸ Sharpsburg District's Responses to Staff's First Request (filed Jan. 31, 2023), Item 4, SWD1_4_-_Nonrecurring_Charges.pdf.

³⁹ Sharpsburg District's Responses to Staff's Second Request (filed Feb.24, 2023), Item 4b.

⁴⁰ Sharpsburg District's Responses to Staff's Second Request (filed Feb. 24, 2023), Item 4a.

⁴¹ Sharpsburg District's Responses to Staff's First Request (filed Jan. 31, 2023), Item 14; Sharpsburg District's Responses to Staff's Second Request (filed Feb. 24, 2023), Item 4a and Item 4b.

⁴² Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 4.

adjustment to Other Water Revenue, removing Labor costs as discussed earlier. The Service Call-After Hours charge of \$25 and the Field Collection Charge of \$20 were not reported in the Other Water Revenue test year amount, so the total adjusted amount of \$52 for Service Call-After Hours and \$17 for Field Collection Charges were added to the net adjustment to Other Water Revenue. The net adjustments to Nonrecurring Charges result in a decrease of \$1,069 to Other Water Revenue as shown in the table below.

	No. of Occurrences	Current NRC	Other Water Revenue	Adjusted NRC	Pro Forma	Net Adjustment to Revenue
Service Call After Hours	1	\$25	\$25	\$52	\$52	\$52
Field Collection Charge	1	\$20	\$20	\$17	17	17
Reconnection Charge	131	\$25	3270 ⁴³	\$17	2,227	(1,043)
Returned Check Charge	10	\$20	145 ⁴⁴	\$5	50	(95)
			<u>\$3,460</u>		<u>\$2,346</u>	<u>(\$1,069)</u>

(E) Salaries and Wages reclassification. In its application, Sharpsburg District proposed an adjustment to increase Salaries and Wages – Employees and decrease Salaries and Wages – Officers by \$33,951 to account for the correction of the incorrect reporting of a portion of the manager’s salaries recorded in Salaries and Wages – Officers instead of Salaries and Wages – Employees. Commission Staff agrees with Sharpsburg District’s proposal to record expenses in the correct expense account. Therefore,

⁴³ Sharpsburg District’s Responses to Staff’s Second Request (filed Feb. 24, 203), Item 4b.

⁴⁴ Sharpsburg District’s Responses to Staff’s Second Request (filed Feb. 24, 2023), Item 4a.

Commission Staff reduced Salaries and Wages – Officers and increased Salaries and Wages – Employees by \$33,951.

(F) Salaries and Wages – Employees. In its application, Sharpsburg District proposed to reduce Salaries and Wages – Employees \$4,076 due to changes in Employee Staffing and wage rates.⁴⁵ Sharpsburg District provided its test-year, and current employee lists⁴⁶ and employee wages.⁴⁷ During the test year Sharpsburg District had eight part-time employees who worked a net of 399 hour;⁴⁸ Subsequent to the test year five of the part-time employees did not work any hours and a new part time Employee was hired. During 2022, the part time employees worked a net of 444 hours.⁴⁹ Therefore, Commission Staff utilized the 2022 employee hours for the part-time employees to calculate a more accurate total employment hours worked. In addition, Sharpsburg District reported that it does not own any utility trucks; instead one field service employees utilize his personal vehicle for water related activities.⁵⁰ In the May 14, 2008 Board of Commissioner’s meeting the Board voted to pay \$20 per day to an employee to utilize his personal vehicle.⁵¹ Commission Staff adjusted this amount to only include days the

⁴⁵ Application, 04_SAO_w_Attachment.pdf, References, Adjustment D.

⁴⁶ Sharpsburg District’s Response to Staff’s First Request (filed Jan. 31, 2023), Item 1e.

⁴⁷ Sharpsburg District’s Response to Staff’s First Request (filed Jan. 31, 2023), Item 1f.

⁴⁸ Sharpsburg District’s Response to Staff’s First Request (filed Jan. 31, 2023), Item 1e.

⁴⁹ Sharpsburg District’s Response to Staff’s Second Request (filed Feb 24, 2023), Item 7, SWD2_7-Payroll_2022.xlsx.

⁵⁰ Sharpsburg District’s Response to Staff’s Second Request (filed Feb. 24, 2023), Item 3a, SWD2_3.a-Lump_Sum_Vehicle_Allowance.pdf, at 1.

⁵¹ Sharpsburg District’s Response to Staff’s Second Request (filed Feb. 24, 2023), Item 3a, SWD2_3.a-Lump_Sum_Vehicle_Allowance.pdf, at 2.

employee worked. Therefore, Commission Staff increased Salaries and Wages – Employees by an additional \$5,200.⁵² Commission Staff Normalized the Test year Salaries and Wages – Employees. Therefore, based on the Normalized test year, Commission Staff decreased Salaries and Wages – Employees by \$8,868 as shown below.

Test Year hours with Current Salaries & Wages						
Employee Position	Total Hours	Test Year Normal Hours	Current Wage Rates	Pro Forma Wages	Vehicle Allowance	Total Pro Forma Wages
Manager & Operator	Salary	Salary	Salary	\$ 80,315		\$ 80,315
Maintenance	Salary	Salary	Salary	41,943	\$ 5,200	47,143
Maintenance	Salary	Salary	Salary	32,500		32,500
Clerical	2,080	2,080	\$ 14.00	29,120		29,120
Meter Reader (part time)	170	170	12.00	2,040		2,040
Meter Reader (Part Time)	69	69	12.00	828		828
Meter Reader (part Time)	174	174	12.00	2,088		2,088
Meter Reader (part Time)	31	31	12.00	372		372
Pro Forma Wages						\$ 194,407
Less: Test Year Wages						<u>(203,275)</u>
Pro Forma Adjustment						<u>\$ (8,868)</u>

(G) Expenses related to Meter Installations. In its application, Sharpsburg District proposed an adjustment to the 2021 test year to decrease Materials and Supplies by \$19,110 and Salaries and Wages – Employees by \$8,190 to account for tapping fees that were included as part of the expenses.⁵³ During 2021, Sharpsburg District installed 26 new water connections all of which were 5/8” x 3/4” residential meters.⁵⁴ Effective August 1, 2021, Sharpsburg District increase the charge for Water Connections from \$850 to \$1,050.⁵⁵ The Uniform System of Accounts for Class A/B Water Systems (USoA)

⁵² 260 Annual Working Days x \$20 per day = \$5,200 Annual Transportation Expense.

⁵³ Application, 04_SAO_w_Attachment.pdf, References, Adjustment E.

⁵⁴ Sharpsburg District’s Response to Staff’s First Request (filed Jan. 31, 2023), Item 11.

⁵⁵ Sharpsburg District’s current Tariff, sheet 4.

requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁵⁶ Therefore, Commission Staff agrees with Sharpsburg District’s proposed adjustment and decreased Materials and Supplies expense by \$19,110 and Salaries and Wages – Employees by \$8,190 as shown below. In addition, Sharpsburg District included the capitalization of the costs to the proposed test-year depreciation adjustment.⁵⁷

Test-Year Tap Fees Collected	\$27,300
Multiplied by Salaries and Wages Percentage- 30%	8,190
Multiplied by Materials and Supplies Percentage-70%	19,110

(H) Salaries and Wages – Officers. In its application Sharpsburg District proposed an adjustment to increase Salaries and Wages – Officers of \$711 to reflect the normalization of Sharpsburg District’s officer salaries.⁵⁸ Sharpsburg District provided the test-year Commissioners and Commissioner’s Salaries.⁵⁹ Commission Staff calculated the test year Salaries and Wages- Officers to be \$8,525 as shown below. Therefore, in order to normalize the test year Commission Staff increased Salaries and Wages – Officers by \$709.

Commissioners	Pro Forma Salaries
Alfred Bailey	\$1,705
Cecil Duncan	1,705
Judy Harmon	1,705
Randy Warner	1,705
Billy Martin	1,705

⁵⁶ USoA, Accounting Instruction 19 and 33.

⁵⁷ Application, 04_SAO_w_Attachment.pdf, Table A, Depreciation Expense Adjustments.

⁵⁸ Application, Attachment 4, 04_SAO_w_Attachment.pdf, References, Adjustment F.

⁵⁹ Sharpsburg District’s Response to Staff’s First Request (filed Jan. 31, 2022), Item 1h, SWD1_1.h_-_Commissioner_Comp.pdf.

Total	8,525
Less: Test-Year Salaries and Wages- Officers	<u>(7,816)⁶⁰</u>
Salaries and Wages- Officers Adjustment	<u><u>\$709</u></u>

(l) Employee Pensions and Benefits- Insurance. In its application, Sharpsburg District proposed an adjustment to increase Employee Pension and Benefits by \$3,971 in order to limit expenses associated with providing employees medical insurance, and an increase in insurance premiums compared to premiums paid in the test year.⁶¹ Sharpsburg District currently pays two of its all six full time employees 100 percent of a single health insurance; two employees are instead reimburse for Medicare expenses incurred during the year; and the final two employees do not qualify for insurance benefits.⁶² Sharpsburg provided the amount it paid for employee’s health and life insurance or reimbursements for 2022.⁶³ The Commission continues to place greater emphasis on evaluating employees’ total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.⁶⁴

⁶⁰ \$41,767 Test Year Salaries and Wages – Officers – \$33,951 miss-categorized Wages = \$7,816.

⁶¹ Application, Attachment 4, 04_SAO_w_Attachment.pdf, References, Adjustment G.

⁶² Sharpsburg District’s Response to Staff’s First Request (filed Jan. 31, 2023), Item 5.

⁶³ Sharpsburg District’s Response to Staff’s Second Request (filed Feb. 24, 2023), Item 9, SWD2_9-Ins_Premiums_2022.pdf, and SWD2_9-Ins_Reimbursements.pdf.

⁶⁴ Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

Consistent with precedent⁶⁵ in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee’s health insurance coverage, Commission Staff reduced Sharpsburg District’s single health insurance premiums and single Medicare reimbursements by 22 percent⁶⁶ as shown in the calculation below. Sharpsburg District provided the most recent copy of its health and dental insurance invoices.⁶⁷ Accordingly, utilizing the most recent invoice amounts Commission Staff recalculated the proposed adjustment and increased Employee Pensions and Benefits by a net of \$3,616 as shown below.

Type of Premium	Employer Contributions	Avg. Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 1,935	22%	\$ (426)	\$1,509
Medicare Reimbursements	798	22%	(176)	622
Life Insurance	123	0%		123
Total Pro Forma Monthly Premiums				2,254
Multiplied by: 12 Months				<u>12</u>
Total Allowable Annual Pro Forma Premium				27,048
Less: Test Year Health Insurance				<u>(23,432)</u>
Employee Pension and Benefits Adjustment				<u>\$ 3,616</u>

(J) Purchased Water Expense. In its application, Sharpsburg District proposed an adjustment to increase purchased water expense by \$18,830 in order to account for an increase in wholesale rates.⁶⁸ Subsequent to the test year Sharpsburg District reported an increase in the wholesale cost for purchased water; Sharpsburg District filed

⁶⁵ Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates*, (Ky. PSC June 20, 2019) at 8–12.

⁶⁶ Bureau of Labor Statistics, *Healthcare Benefits*, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁶⁷ Sharpsburg District’s Response to Staff’s First Request (filed Jan 31, 2023)), Item 5.

⁶⁸ Application, Attachment 4, 04_SAO_w_Attachment.pdf, References, Adjustment H.

and was approved for three separate purchase water adjustments, the latest was in Case No. 2022-00273.⁶⁹ Sharpsburg District provided the total number of gallons and total charges for water purchased during the test year;⁷⁰ Sharpsburg District also provided the current wholesale rate.⁷¹ In order to annualize the purchased water cost, Commission Staff calculated a revised pro forma purchased water expense using the test year gallons purchased and the current rates. This results in a purchased water expense of \$391,158. Therefore, Commission Staff agrees with Sharpsburg District's proposed Purchased Water adjustment of \$18,830 as shown below.

Period	City of Carlisle		Bath County Water District		Total
	Gallons Purchased	Sub-Total	Gallons Purchased	Sub-Total	
January 2021	1,538,000	\$ 3,152	6,860,000	\$26,685	\$29,837
February 2021	1,929,200	3,942	7,516,000	29,237	33,180
March 2021	2,031,900	4,150	8,838,000	34,380	38,530
April 2021	2,230,700	4,551	7,237,000	32,042	36,593
May 2021	1,551,800	3,180	7,276,000	28,304	31,484
June 2021	1,754,200	3,589	6,410,000	24,935	28,524
July 2021	2,583,900	5,265	7,138,000	27,767	33,032
August 2021	1,755,100	3,591	7,924,000	30,824	34,415
September 2021	1,892,700	3,869	7,538,000	29,323	33,191
October 2021	1,736,000	3,552	7,538,000	29,397	32,949
November 2021	1,880,200	3,843	7,197,000	27,996	31,840
December 2021	1,799,700	3,681	6,145,000	23,904	27,585
Total Purchased Water Expense					391,158
Less: Test Year Purchased Water Expense					<u>(372,328)</u>
Pro Forma Purchased Water Expense					<u>\$18,830</u>

⁶⁹ Case No. 2022-00273, (KY. PSC Sep 13, 2022), Order.

⁷⁰ Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 7, SWD1_7_-_Water_Purchased.pdf.

⁷¹ Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 8, SWD1_8_-_Purchase_Rate.pdf.

(K) Expenses Attributable to Water Loss. In its application, Sharpsburg District proposed a net adjustment of \$33,184 decrease to Purchased Water and Purchased Power, to account for excess water loss.⁷² This adjustment is in accordance with Commission precedent of not allowing recovery of expenses for water loss in excess of 15 percent.⁷³ Commission Staff agrees with Sharpsburg District’s adjustment. When adjustment (K) is included in the purchased water calculation, it results in a decrease to Purchased Water Expense by \$31,527 and Purchased Power Expense by \$1,657. The adjustments result in a net decrease of \$33,184 as shown in the table below. As discussed above, Sharpsburg District’s total cost at 23.06 percent water loss is \$94,942. Commission Staff recommends Sharpsburg District take additional steps to develop a water loss reduction plan and attempt to lower water loss to below 15 percent.

	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$391,158	\$20,560	\$411,718
Multiply by: Water Loss in Excess of 15 percent	8.06%	8.06%	8.06%
Total Costs due to Excess Water Loss	<u>\$31,527</u>	<u>\$1,657</u>	<u>\$33,184</u>

(L) Transportation Expense. During the test year Sharpsburg paid James Purvis Vehicle Allowance of \$10,279⁷⁴ for the usage of his personal truck usage and Gas

⁷² Application, Attachment 4, 04_SAO_w_Attachment.pdf, References, Adjustment I.

⁷³ Case No. 2022-00117, *Electronic Application of Bronston Water Association, Inc. For A Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Oct 12, 2022) at 10 and 11. Case No. 2022-0012, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct 24, 2022) at 8.

⁷⁴ Sharpsburg District’s Response to Staff’s Second Request (filed Feb 24, 2023), Item 7, SWD2_7-Payroll_2021.xlsx.

reimbursement.⁷⁵ Of the Allowance, \$2,979.35 is for the Reimbursement for Gas Receipts.⁷⁶ Sharpsburg District includes the reimbursement for gas receipts as a part of Salaries and Wages – Employees.⁷⁷ Commission Staff recommends that the reimbursement for Gas Receipts should be recorded as Transportation Expense instead of Salaries and Wages – Employees. Therefore, Commission Staff increased Transportation Expense by \$2,979.

(M) Depreciation. In its application Sharpsburg District proposed an adjustment increasing Depreciation Expense by \$21,520 to reflect the changing of useful service lives of assets. Sharpsburg District proposed to adjust the useful lives of assets to the midpoint of the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).⁷⁸ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has also historically relied upon the NARUC Study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Upon examination, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Included in the adjustment is the \$683 for capitalization of expenses involved in the installation of

⁷⁵ Sharpsburg District's Response to Staff's Second Request (filed Feb 24, 2023), Item 3a, SWD2_3.a-Lump_Sum_Vehicle-Allowance.pdf, and Item 3b, SDW2_3.b-Meter_Reading_Gas-Allowance.pdf.

⁷⁶ \$10,279 Vehicle Allowance - \$7,300 (\$20 x 365 days) Vehicle Allowance = \$2,979.

⁷⁷ Sharpsburg District's Response to Staff's Second Request (filed Feb 24, 2023), Item 7, SWD2_7-Payroll_2021.xlsx.

⁷⁸ Application, Attachment 4, 04_SAO_w_Attachment.pdf, References, Adjustment G.

new water connections discussed in adjustment (G). Therefore, Commission Staff agrees with Sharpsburg District's individual asset category adjustments; however, when Commission Staff calculated the total depreciation expense it calculated \$155,460 instead of the proposed \$153,988. Commission Staff increased Sharpsburg District's Depreciation Expense by \$21,668 to \$155,460 as shown below.

<u>Categories</u>	<u>Test Year Depreciation</u>	<u>Depreciation Adjustment</u>	<u>Pro Forma Depreciation</u>
Structures & Improvements	\$84,323	\$27,813	\$112,136
Distribution Reservoirs & Standpipes	11,091	1,232	12,323
Transmission & Distribution Mains	36,696	(7,339)	29,357
Meters & Meter Installation	-	683	683
Miscellaneous Equipment	1,682	(721)	961
Total	<u><u>\$133,792</u></u>	<u><u>\$21,668</u></u>	<u><u>\$155,460</u></u>

(N) Taxes other Than Income – Utility and Sales Tax. In its application, Sharpsburg District proposed an adjustment to decrease 2021 test year Taxes Other than Income by \$25,581 in order to account for the removal of Utility Tax collections and Sales Tax.⁷⁹ Because these taxes are not expenses incurred by Sharpsburg District, they were removed. Commission Staff agrees with Sharpsburg District's adjustment, since Sharpsburg District is not collecting revenues nor incurring any expenses and are functioning as a pass through entity, it should not be able to recover the taxes. Commission Staff reviewed Sharpsburg District's test year trial balance⁸⁰ and agrees the net decrease to Taxes other than Income is \$25,581.⁸¹

⁷⁹ Application, Attachment 4, 04_SAO_w_Attachment.pdf, References, Adjustment K.

⁸⁰ Sharpsburg District's Response to Staff's First Request (filed Jan. 31, 2023), Item 1a, SWD1_1.a_-_Trial_Balance_2021.pdf.

⁸¹ Utility Tax \$24,723 + Sales Tax \$858 = \$25,581.

(O) Taxes other Than Income – FICA. In its application, Sharpsburg District proposed an adjustment to decrease 2021 test year Taxes Other Than Income by \$312 in order to account for the decrease in payroll taxes due to the decrease in Salaries and Wages Expense.⁸² Sharpsburg District records Payroll Taxes as part of Salaries and Expense – Employees.⁸³ However, as explained in Adjustment (F) above, Commission Staff calculated 2021 test year pro forma Salaries and Wages expense of \$194,407, this total does not include Payroll Taxes. Additionally Commission Staff included Salaries and Wages – Officers in the calculation for payroll taxes. Therefore, Commission Staff calculated an increase to Taxes Other Than Income of \$15,524 as shown below.

Salaries and Wages – Employees	\$194,407
Salaries and Wages – Officers	<u>8,525</u>
Total Applicable Pro Forma Salaries and Wages	202,932
Multiplied by FICA Contribution Rate	<u>7.65%</u>
Pro Forma Payroll Taxes	<u>\$15,524</u>

(P) Nonutility Income. During the test-year, Sharpsburg District reported \$24,500 in Nonutility income, Account number 421.⁸⁴ Commission Staff determined that Nonutility income was the account Sharpsburg District reported Connection fees income to.⁸⁵ Sharpsburg District confirmed it collected \$24,500 during the test year in Connection fees and Meter Deposits.⁸⁶ Commission Staff disagrees with this methodology of

⁸² Application, Attachment 4, 04_SAO_w_Attachment.pdf, References, Adjustment D.

⁸³ Sharpsburg District’s Response to Staff’s Second Request (filed Feb. 24, 2023), Item 1c.

⁸⁴ 2021 Annual Report, at 20.

⁸⁵ Sharpsburg District’s Response to Staff’s First Request (filed Jan. 31, 2023), Item 1a, SWD1_1.a_-_Trial_Balance_2021.pdf.

⁸⁶ Sharpsburg District’s Supplement to Staff’s Second Request (filed Mar. 6, 2023), Connection_Fee_Detail.pdf.

recording the Tap Fees and Meter Deposits as revenues. The Uniform System of Accounts for class C Water Districts and Associations requires water tap-on fees collected to be recorded in Account 432, Proceeds from Capital Contributions. Therefore, Commission Staff reduced Nonutility Income by \$24,500.

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 and water associations.⁸⁷ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;⁸⁸ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

⁸⁷ Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Oct. 24, 2022). Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

⁸⁸ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See 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 Dec. 21, 2012).

	Sharpsburg Water District	Staff
Pro Forma Operating Expenses	\$ 965,896	\$ 979,711
Plus: Avg. Annual Principal and Interest Payments	83,120	78,743 (1)
Additional Working Capital	16,624	15,749 (2)
Total Revenues Requirement	1,065,640	1,074,203
Less: Other Operating Revenue	(12,902)	(13,138)
Interest Income	(191)	(191)
Revenue Required From Water Sales	1,052,547	1,060,874
Revenue from Sales at Present Rates	(891,425)	(901,763)
Required Revenue Increase	\$ 161,122	\$ 159,111
Percentage Increase	18.07%	17.64%

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Sharpsburg District had five outstanding waterworks revenue bonds.⁸⁹ In its application, Sharpsburg District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2023 through 2027.⁹⁰ Commission Staff agrees with Sharpsburg District's methodology; however, when Commission Staff reviewed the amortization tables it determined a different Average Principal and Interest

⁸⁹ Case No. 8896, *The Joint Application of the Bath County Water District of Bath County, Kentucky, and the Sharpsburg Water District of Bath and Nicholas Counties Kentucky, for a Certificate of Public Convenience and Necessity, Authorizing and Permitting the Bath County Water District to Construct Extensions and Improvements to enable the Bath County Water District of Treated Water to the Sharpsburg Water District* (Ky. PSC June 22, 1984). Case No, 1990-00353, *The Application of Sharpsburg Water District of Bath and Nicholas Counties Kentucky for a Certificate of Public Convenience and Necessity Construct, Finance and Increase Rates* (Ky. PSC Dec. 13, 1990). Case No. 1995-00566, *In the Matter of the application of Sharpsburg Water District of Bath and Nicholas Counties, Kentucky, for a certificate of public convenience and necessity to construct, finance and increase rates pursuant to KRS 278.023* (Ky. PSC Jan. 17, 1996). Case No. 2006-00174, *Application Of Sharpsburg Water District For A Certificate Of Public Convenience And Necessity To Construct, Finance And Increase Rates And Charges Pursuant To KRS 278.023* (Ky. PSC May 9, 2006). Case No. 2011-00188, *Application Of Sharpsburg Water District For A Certificate Of Public Convenience And Necessity, An Increase In Rates, And Approval Of A Plan Of Financing Pursuant To The Provisions Of KRS 278.023* (Ky. PSC June 22, 2011).

⁹⁰ Application, Attachment 4, 04_SAO_w_Attachment.pdf, Table B Debt Service Schedule.

amount. As shown below, Commission Staff calculated an Average Principal and Interest of \$78,743.

Year	RD Series 1984		RD Series 1990		RD Series 1996		RD Series 2006		RD Series 2011		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2023	\$12,000	\$1,354	\$13,000	\$6,025	\$9,000	\$6,782	\$5,000	\$8,229	\$13,500	\$11,638	\$86,528
2023	13,000	463	14,000	5,350	9,400	6,368	5,500	8,013	13,500	11,334	86,928
2024	-	-	15,000	4,625	9,900	5,933	5,500	7,786	14,000	11,025	73,769
2025	-	-	15,000	3,875	10,300	5,479	6,000	7,549	14,500	10,704	73,407
2026	-	-	16,000	3,100	10,800	5,004	6,000	7,301	14,500	10,378	73,083
Totals											393,716
Divided by 5 years											<u>5</u>
Average Annual Interest											<u>\$78,743</u>

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Sharpsburg District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its Waterworks Revenue Bonds at the time of its application.

Following the Commission's historic practice, Commission Staff agrees with Sharpsburg District. Therefore, as calculated below and shown in the table above, \$15,749 is included in the revenue requirement.

Average Annual Principal and Interest	\$ 78,743
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	94,492
Less: Average Annual Principal and Interest Payments	<u>(78,743)</u>
Additional Working Capital	<u>\$ 15,749</u>

Signatures

/s/ William M. Foley

Prepared by: William M. Foley
Revenue Requirement Branch
Division of Financial Analysis

/s/ Elizabeth Stefanski

Prepared by: Elizabeth Stefanski
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00348 DATED MAR 27 2023

The following rates and charges are prescribed for the customers in the area served by Sharpsburg Water District. 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.

Monthly Water Rates

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$31.65	Minimum Bill
Next	3,000 Gallons	0.00817	Per Gallon
Next	5,000 Gallons	0.00740	Per Gallon
Over	10,000 Gallons	0.00711	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$56.27	Minimum Bill
Next	5,000 Gallons	0.00740	Per Gallon
Over	10,000 Gallons	0.00711	Per Gallon

2-Inch Meter

First	16,000 Gallons	\$136.09	Minimum Bill
Over	16,000 Gallons	0.00711	Per Gallon

Bulk Loading Station

0.01089 Per Gallon

Nonrecurring Charges

Service Call After Hours	\$52.00
Field Collection Charge	17.00
Late Payment Penalty	10%
Meter Re-read Charge	17.00

Meter Test Charge	89.00
Service Call/ Investigation	17.00
Reconnect Charge	17.00
Returned Check Charge	5.00
5/8 x 3/4 Inch Tap-On Charge	\$1,130.00
All Meters larger than 5/8 x 3/4	Actual Cost

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