

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH	)	CASE NO.
MARSHALL WATER DISTRICT FOR A RATE	)	2023-00134
ADJUSTMENT PURSUANT TO 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 June 2, 2023, the attached report containing the findings 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 June 2, 2023 Order, North Marshall Water District (North Marshall District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of service of this report. The Commission directs North Marshall District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED SEP 07 2023

cc: Parties of Record

---

<sup>1</sup> 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).

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH	)	CASE NO.
MARSHALL WATER DISTRICT FOR A RATE	)	2023-00134
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

COMMISSION STAFF'S REPORT  
ON NORTH MARSHALL WATER DISTRICT

North Marshall Water District (North Marshall 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 5,340 residential customers, 220 commercial customers, and four multiple family dwellings in Livingston and Marshall counties, Kentucky.<sup>2</sup> On May 15, 2023,<sup>3</sup> North Marshall District filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. North Marshall District used the calendar year ended December 31, 2021, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2021-00333, which required North Marshall District to file an application for an adjustment of its base rates by February 21, 2023.<sup>4</sup> North Marshall District did not submit

---

<sup>2</sup> *Annual Report of North Marshall Water District to the Public Service Commission (Annual Report) for the Calendar Year Ended December 31, 2021* at 12 and 49.

<sup>3</sup> North Marshall District tendered its application on May 9, 2023. By letter dated May 10, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on May 15, 2023.

<sup>4</sup> Case No. 2021-00333, *Electronic Application of North Marshall Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023*, (Ky. PSC Feb. 21, 2022) at 4, ordering paragraph 1.

its application until May 15, therefore, it did not file the application within the deadline ordered by the Commission. North Marshall District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2010-00247.<sup>5</sup> Since that matter, North Marshall District has only adjusted its rates in conjunction with two applications for financing and a Certificate of Public Convenience and Necessity pursuant to KRS 278.023(3).<sup>6</sup> To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated June 2, 2023. North Marshall District responded to two discovery requests from Commission Staff.<sup>7</sup>

### TEST YEAR

To comply with the requirements of 807 KAR 5:076, Section 9,<sup>8</sup> North Marshall District used the calendar year ended December 31, 2021, as the basis for its application. The application should have been marked deficient because the most recent Annual Report filed by North Marshall District as of the date that this application was submitted was the 2022 Annual Report.<sup>9</sup> According to 807 KAR 5:076, Section 1(2)(a) and (b):

Annual report for the immediate past year means an annual report that covers the applicant's operations for either: The calendar year period prior to the year in which the applicant's

---

<sup>5</sup> Case No. 2010-00247, *Application for Adjustment of Water Rates of North Marshall Water District*, (Ky. PSC Oct. 5, 2010).

<sup>6</sup> Case No. 2015-00195, *Application of the North Marshall Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC, Jul. 20, 2015). Case No. 2021-00333, Sept. 17, 2021 Order.

<sup>7</sup> North Marshall District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 30, 2023). North Marshall District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 31, 2023).

<sup>8</sup> 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.

<sup>9</sup> The 2021 Annual Report was filed May 31, 2022. The 2022 Annual Report was filed March 30, 2023.

application for rate adjustment is filed with the commission; or The most recent calendar year period that 807 KAR 5:006, Section 4(1), requires the applicant to have on file with the commission as of the date of the filing of its application for rate adjustment; Application was submitted using 2020 annual reporting data.

Therefore, since the 2022 Annual Report was filed before the application was submitted, North Marshall District should have used 2022 as its test year. Commission Staff recommends the Commission accept Commission Staff's Report using the 2021 test year, since all the discovery and calculations were conducted using the 2021 Annual Report; and since if North Marshall District had filed the application by the ordered February 21, 2023 deadline, the most recent annual report of file was the 2021.

#### WATER LOSS

The Commission notes that in its 2021 Annual Report, North Marshall District reported a water loss of 25.8658 percent.<sup>10</sup> 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 operations. The table below shows that the 2021 total annual cost of water loss to North Marshall District is \$50,656, while the annual cost of water loss in excess of 15 percent is \$21,280.

---

<sup>10</sup> 2021 Annual Report at 57–58.

Total Cost of Water Loss

	<u>Purchased Power</u>	<u>Chemicals &amp; Lab Testing</u>	<u>Total</u>
Pro Forma Expenses	\$ 167,123	\$ 28,720	\$ 195,843
Water Loss Percent	25.8658%	25.8658%	25.8658%
Total Water Loss	<u>\$ 43,228</u>	<u>\$ 7,429</u>	<u>\$ 50,656</u>

Cost of Water Loss in Excess of 15 Percent

	<u>Purchased Power</u>	<u>Chemicals &amp; Lab Testing</u>	<u>Total</u>
Pro Forma Expenses	\$ 167,123	\$ 28,720	\$ 195,843
Water loss in Excess of 15 Percent	10.8658%	10.8658%	10.8658%
Excess Cost	<u>\$ 18,159</u>	<u>\$ 3,121</u>	<u>\$ 21,280</u>

DISCUSSION

Using its pro forma test-year operations, North Marshall District determined that a base rate revenue increase of \$473,800,<sup>11</sup> or 23.41 percent, is necessary to achieve the revenue requirement as shown in the table below.<sup>12</sup> North Marshall District proposed utilizing the Operating Ratio method to determine the revenue requirement, which is discussed in the next section. The rates requested by North Marshall District would increase the residential bi-monthly bill of a typical residential customer using 8,000 gallons per bi-month by \$11.66, from \$49.65 to \$61.31, or approximately 23.48 percent.<sup>13</sup>

---

<sup>11</sup> Commission Staff observed a rounding issue with this amount, \$2,497,969 - \$2,024,170 = \$473,799.

<sup>12</sup> Application, Attachment 4, Revenue Requirements, Operating Ratio Method.

<sup>13</sup> Application, Attachment 1, Customer Notice.

	<u>North Marshall Water District</u>
Pro Forma Operating Expenses	\$ 2,171,354
Divided by: Operating Ratio	88%
Plus: Average Interest Expense	<u>114,947</u>
Total Revenues Requirement	2,582,395
Less: Other Operating Revenue	84,426
Interest Income	<u>-</u>
Revenue Required From Sales of Water	2,497,969
Revenue from Sales with Present Rates	<u>(2,024,170)</u>
Required Revenue Increase	<u>\$ 473,800</u>
Percentage Increase	<u><u>23.41%</u></u>

To determine the reasonableness of the rates requested by North Marshall District, Commission Staff performed a limited review of North Marshall 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 measurable<sup>14</sup> changes to test-year operations were identified, and adjustments were made when its effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

---

<sup>14</sup> 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); and 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 findings are summarized in this report. William Foley reviewed the calculation of North Marshall District's Overall Revenue Requirement and Eddie Beavers reviewed North Marshall District's reported revenues and rate design.

### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. The Operating Ratio methodology (OR method)<sup>15</sup> is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. North Marshall District utilized the OR Method to calculate its revenue requirement. The Commission Staff finds this to be appropriate, as at the time of Commission Staff's review, North Marshall District only had two outstanding United States Department of Agriculture, Rural Development (RD) Bonds.<sup>16</sup> Commission Staff is of the opinion that an operating ratio of 88 percent will allow North Marshall District sufficient revenues to cover its reasonable operating expenses and provide for reasonable equity growth. By applying the OR method, as generally accepted by the Commission, Commission Staff determined that North Marshall District's required revenue from water sales is \$2,351,782 to meet the Overall Revenue Requirement of \$2,383,987 and that a \$341,224 revenue increase, or 16.97 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

---

<sup>15</sup> Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

<sup>16</sup> Application, Attachment 4, Debt Service Schedule. Also refer to Case No. 2015-00195, *Application of the North Marshall Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant To KRS 278.023* (Ky. PSC, July 20, 2015). Case No. 2021-00333, Sept. 17, 2021 Order.

2. Monthly Water Service Rates. North Marshall District proposed to increase its bi-monthly retail water service rates by approximately 23.41 percent across the board. North Marshall District has not performed a cost-of-service study (COSS). North Marshall District stated that it did not complete a COSS at this time as there have been no material changes in the water system.<sup>17</sup>

The Commission has previously found that the allocation of a revenue increase 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.<sup>18</sup> Finding no such evidence in this case, Commission Staff followed the method previously accepted by the Commission and allocated the \$341,224 revenue increase evenly across the board to North Marshall District's monthly retail and wholesale water service rates.

The rates, which are set forth in Appendix B 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 \$2,351,782 Revenue Required from Rates. The rates will increase a typical residential customer's bi-monthly water bill from \$49.65 to \$57.96, an increase of \$8.31, or approximately 16.74 percent.<sup>19</sup>

---

<sup>17</sup> North Marshall District's Response to Staff's First Request, Item 14.

<sup>18</sup> Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

<sup>19</sup> The typical residential customer uses approximately 8,000 gallons bi-monthly. Application, Attachment 1.



3. Nonrecurring Charges. Following the Commission’s recent decisions,<sup>20</sup> Commission Staff has reviewed North Marshall District’s nonrecurring charges. The Commission found that because district personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated to avoid double recovery of the same expense. Commission Staff reviewed the cost justification information provided by North Marshall District and adjusted these charges by removing Field Labor Costs of \$27.33 per hour and Office/Clerical Labor Costs of \$24.47 per hour from those charges which occur during normal business hours.<sup>21</sup> Appendix A provides Commission Staff’s adjustment calculations for the nonrecurring charges. Commission Staff’s recommended nonrecurring charge amounts are as follows:

Connection/Turn-On Charge	\$5.25
Connection Charge After Hours	\$92.50
Field Collection Charge	\$5.25
Meter Box or Lid Replacement Charge	Actual Costs
Meter Re-installation Charge	\$10.50
Meter Relocation Charge	Actual Costs
Meter Reread	\$5.25
Meter Test Charge	\$13.00
Reconnection Charge	\$21.00
Reconnection Charge After Hours	\$98.00

---

<sup>20</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and 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).

<sup>21</sup> North Marshall District’s Response to Staff’s First Request, Item 19, 19.Non\_Recurring\_Charges.pdf.

Returned Check Charge	\$15.60
5/8 x 3/4 Meter Tap On Fee	\$1,400

The revised nonrecurring charges result in a decrease to test year Other Water Revenues and an increase to the total revenue requirement of \$12,003 as explained in adjustment (C) below.

	Num.	Current Rate	Total	Revised Rate	Adj	Pro Forma
Miscellaneous Service Revenues:						
Connection/Turn-On Charge	404	\$25.00	\$10,100	\$5.25	(\$7,979)	\$2,121
Connection Charge After Hours	0	\$67.00	\$0	\$92.50	\$0	\$0
Field Collection Charge	0	\$25.00	\$0	\$5.25	\$0	\$0
Meter Box or Lid Replacement Charge			\$400		\$0	\$400
Meter Re-installation Charge	4	\$50.00	\$200	\$10.50	(\$158)	\$42
Meter Relocation Charge			\$411		\$0	\$411
Meter Reread	0	\$25.00	\$0	\$5.25	\$0	\$0
Meter Test Charge	1	\$50.00	\$50	\$13.00	(\$37)	\$13
Reconnection Charge	119	\$50.00	\$5,950	\$21.00	(\$3,451)	\$2,499
Reconnection Charge After Hours	0	\$92.00	\$0	\$98.00	\$0	\$0
Returned Check Charge	36	\$25.00	\$940	\$15.60	(\$378)	\$562
Total Miscellaneous Service Revenues	564		\$18,051		(\$12,003)	\$6,048

### PRO FORMA OPERATING STATEMENT

North Marshall District's Pro Forma Operating Statement for the test year ended December 31, 2021, as determined by Commission Staff appears in the table below.

	Test Year	North Marshall Proposed Adjustment	Commission Staff Proposed Adjustment	Total Proposed Adjustment	(Ref.)	Pro Forma
<b>Operating Revenues</b>						
Sales of Water						
Metered Water Sales	\$ 1,702,863	\$ 321,307	\$ -	\$ 321,307	(A)	
			(13,612)	(13,612)	(A)	\$ 2,010,558
Other Water Revenues						
Forfeited Discounts			20,294	20,294	(B)	20,294
Misc. Service Revenues	16,249		(10,201)	(10,201)	(C)	6,048
Other Water Revenues	68,177		(20,294)	(20,294)	(B)	
			(47,783)	(47,783)	(D)	100
<b>Total Operating Revenues</b>	<b>1,787,289</b>	<b>321,307</b>	<b>(71,596)</b>	<b>249,711</b>		<b>2,037,000</b>
<b>Operating Expenses</b>						
Operating and Maintenance Expenses						
Salaries and Wages- Employees	577,658	122,683	-	122,683	(E)	
		(17,220)	8,063	(9,158)	(F)	691,184
Salaries and Wages- Officers	30,200					30,200
Employee Pensions (CERS)	255,453		(109,828)	(109,828)	(G)	
		29,915	(12,045)	17,870	(G)	163,495
Employee Benefits (Medical, Life)	130,384	397	(16,922)	(16,525)	(H)	
		1,051	604	1,655	(I)	
		2,065	17	2,082	(J)	117,596
Purchased Water	-			-		-
Purchased Power	167,123	(18,159)	-	(18,159)	(L)	148,964
Chemicals	26,167	7,355	(4,802)	2,553	(K)	
		(2,843)	(278)	(3,121)	(L)	25,600
Materials and Supplies	174,017	(40,180)	18,813	(21,368)	(F)	152,650
Contractual Services- Eng.	1,868					1,868
Contractual Services- Acct.	12,400					12,400
Contractual Services- Legal	1,481					1,481
Contractual Services- Water Testing	14,092					14,092
Contractual Services- Other	79,028					79,028
Rental of Building/ Real Property	2,400					2,400
Rental of Equipment	1,153					1,153
Transportation Expenses	34,755					34,755
Insurance- Health, Gen. Liab & Worker Comp.	53,900					53,900
Insurance- Other	1,100					1,100
Advertising Expense	1,948					1,948
Miscellaneous Expenses	82,365		(527)	(527)	(M)	
		9,505	-	9,505	(N)	
			(55,886)	(55,886)	(O)	35,456
<b>Total Operation and Maintenance Expenses</b>	<b>1,647,492</b>	<b>94,569</b>	<b>(172,792)</b>	<b>(78,223)</b>		<b>1,569,270</b>
Depreciation Expenses	418,590	8,205	(54,840)	(46,635)	(P)	
			1,526	1,526	(Q)	373,481
Amorization Expense		2,500	151	2,651	(R)	2,651
Taxes other than Income	-		55,886	55,886	(N)	55,886
<b>Total Operating Expenses</b>	<b>2,066,082</b>	<b>105,274</b>	<b>(170,068)</b>	<b>(64,794)</b>		<b>2,001,288</b>
Utility Operating Income	(278,793)	216,033	98,472	314,505		35,712
Interest and Dividend Income	5,763					5,763
<b>Total Other Revenues and Deductions</b>	<b>5,763</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>5,763</b>
<b>Net Income Before Contributions</b>	<b>\$ (273,030)</b>	<b>216,033</b>	<b>98,472</b>	<b>\$ 314,505</b>		<b>\$ 41,475</b>

(A) Billing Analysis Adjustment. North Marshall District proposed an increase of \$321,307 to its test-year revenues of \$1,702,863, for an adjusted test-year normalized revenues of \$2,024,170. North Marshall District adjusted revenues to meet the revenues generated by the billing analysis and to account for an increase in general service rates

in Case No. 2021-00333.<sup>22</sup> North Marshall District provided additional information in response to Staff's Second Request that there were additional Leak Adjustments that were not included in the initial Leak Adjustments. Commission Staff has reduced total test year General Water Service Revenues by \$13,612 for these additional Leak Adjustments.<sup>23</sup> This adjustment reduces the test year pro forma General Water Service Revenues to \$2,010,588. Commission Staff reviewed North Marshall District's analysis and agreed with the adjustment made by North Marshall District. Commission Staff recommends that the Commission approve the adjustments by North Marshall District based on the evidence provided in the record.

(B) Late Payment Penalties. After review of North Marshall District's 2021 General Ledger account 471-2 Late Fees,<sup>24</sup> Harrison Water reported Late Payment Penalties of \$20,295.<sup>25</sup> Commission Staff determined that North Marshall District misclassified Late Payment Penalties as Other Water Revenues in its application.<sup>26</sup> Commission Staff reclassified the \$20,294 from Other Water Revenues to Forfeited Discounts. This was a reduction to Other Water Revenues stated at \$68,177 to remove the amount of \$20,294 for the reclassifying of the amount of Late Payment Penalties and for increasing the classification of Forfeited Discounts to \$20,294. Commission Staff

---

<sup>22</sup> Application, Attachment 4, SAO, Reference (A), and Case No. 2021-00333, Feb. 21, 2022 Order.

<sup>23</sup> North Marshall District's Response to Staff's Second Request, Item 7(b)(2).

<sup>24</sup> North Marshall District's Response to Staff's First Request, Item 1(a), 1a\_2021\_NMWD\_Ledger\_Analysis.xls and North Marshall District's Response to Staff's Second Request, Item 4(b).

<sup>25</sup> North Marshall District's Response to Staff's Second Request, Item 4, 4\_a\_General\_Ledger\_Late\_fees.pdf.

<sup>26</sup> Application, Attachment 4, SAO.

recommends that the Commission approve these adjustments based on Commission Staff's analysis of Other Water Revenue components.

(C) Miscellaneous Service Revenues. In its application, North Marshall District did not propose any adjustment to Miscellaneous Service Revenues, which totaled \$16,249 for the nonrecurring charges. In response to Staff's First Request, North Marshall responded to Item 18 with an excel worksheet with a total Miscellaneous Service Revenues of \$18,051.

In response to Staff's Second Request, North Marshall District provided the total amounts that it calculated after examining its records and the general ledger. After this review North Marshall District stated that several items reported in their responses to Staff's First Request were misreported or miscalculated, for example the Meter Re-Installation Charge of \$573 had been overstated by \$373 and should have been \$200, the Turn Off Fee should have been reported as Reconnection Fees and should have been \$5,950.<sup>27</sup> With all the changes North Marshall District's Miscellaneous Service Revenues have been adjusted from the reported test year revenues of \$16,249 by \$1,802 resulting in a revised Miscellaneous Service Revenues of \$18,051.<sup>28</sup> Additionally, North Marshall District provided updated cost justification sheets for the pro forma revenues.<sup>29</sup> Commission Staff reduced Miscellaneous Service Revenues by \$12,003 for changes to nonrecurring charge amounts for the removal of the labor costs previously discussed and

---

<sup>27</sup> North Marshall District's Response to Staff's Second Request, Item 6(b).

<sup>28</sup> North Marshall District's Response to Staff's Second Request, Item 5.

<sup>29</sup> North Marshall District's Response to Staff's First Request, Item 11.

increased revenues by \$1,802 for a net decrease of \$10,201 to the test year amount for a proforma balance of \$6,048.

North Marshall District provided additional information in response to Commission Staff's Second Request regarding the Replace Box or Lid Fee and the Meter Relocation Fee. The Replace Box or Lid Fee is not specifically stated in the listing of nonrecurring charges. North Marshall District maintains that the Replace Box or Lid Fee is not stated in the nonrecurring charges as it is unnecessary to include this in this listing. North Marshall District directed Commission Staff to its Tariff<sup>30</sup> which reads:

(2) No person shall maliciously, willfully, or negligently break, damage, destroy, uncover, deface, or tamper with any structure appurtenance or equipment which is a part of the utility's water system. Any person violating this provision will be subject to immediate arrest and/or discontinuance of water service and shall pay the cost of repairing or replacing the utility's facilities.

(3) If any loss or damage to the property of the utility or any accident or other injury to persons or property is caused by or results from the negligence or wrongful action of a customer, members of his/her household, his/her agent or employee, the cost of necessary repairs or replacements shall be paid by the customer of the utility and any liability otherwise resulting shall be that of the customer.

Commission Staff acknowledges this is North Marshall District's basis for the charge, however, the lack of inclusion of the charge in the listing of nonrecurring charges may be viewed as misleading to the customer. As all the nonrecurring charges have a basis or policy related to when and how they are charged, Commission Staff recommends

---

<sup>30</sup> North Marshall District's Tariff, PSC Ky No. 4, Original, Sheet No. 35 of the Tariff, Z., Legal Disclaimers, paragraphs 2 and 3.

that North Marshall District be directed by the Commission to place in their Tariff the Replace Box or Lid Fee in the listing of nonrecurring charges and as for the basis or policy related to when and how it is charged, North Marshall District could refer to this section and subsections.

Commission Staff recommends that the Commission approve these adjustments and the inclusion of the Replace Box or Lid Fee at Actual Cost in the listing of nonrecurring charges and that North Marshall District should reference Section Z (2) and (3) of their tariff as the basis for this charge.

North Marshall District additionally charges a “fraud charge” for the inability of accessing funds in a customer’s bank account via an automated transfer of funds. This charge is not stated in the tariff but is allotted to a customer’s account for the inability to access the account. North Marshall District charges \$10 for this inability to access the customer's account. North Marshall District provided no cost justification sheet and did not provide an explanation of the any written policy for this charge.

Commission Staff recommends that the Commission require North Marshall District to include this charge in its tariff and provide a cost justification sheet along with a policy at the close of this case through the Electronic Tariff Filing System for inclusion in the listing of nonrecurring charges.

(D) Other Water Revenues. In its application, North Marshall District did not propose any adjustment to Other Water Revenues, which totaled \$68,177. In response to Staff’s Second Request, North Marshall District provided additional information on the recorded revenues of the Other Water Revenues included in the test year total. The majority of these revenue amounts were misclassified and Commission Staff has

removed them from the Other Water Revenues. Commission Staff decreased the test year revenues by \$30,525 for misclassified Tap Fees that should have been capitalized as tap fees are considered as contributed capital;<sup>31</sup> and by \$750 for misclassified Meter Installations that should have been included in the Miscellaneous Service Revenues as discussed above in the Miscellaneous Service Revenues section;<sup>32</sup> and by \$20,294 for misclassified Forfeited Discounts that were reclassified as Forfeited Discounts as discussed above; and increased \$13,612 for misclassified Leak Adjustments that were not removed from the billing analysis.<sup>33</sup> Additionally, \$30,120 was removed for Insurance Reimbursements, that were for property and general liability claims due to the storm event of December 2021, which is not considered revenues, it is not a routine transaction in the normal course of business and should be removed from the test year.<sup>34</sup> After adjustments shown in the chart below, the pro forma Other Water Revenues are \$100 which represents sewer disconnects and reconnections for when a customer fails to pay its sewer bill with the Marshall County Sanitation District.<sup>35</sup>

Insurance Reimbursement	\$	30,120
Tap Fees		30,525
Meter Installation		750
Leak Adjustments		(13,612)
Total Adjustment (D)	\$	<u>47,783</u>

---

<sup>31</sup> North Marshall District's Response to Staff's Second Request, Item 8(b).

<sup>32</sup> North Marshall District's Response to Staff's First Request, Item 21, 21.(b)\_NMWD\_Other\_Operating\_Revenues.xlsx and North Marshall District's Response to Staff's Second Request, Item 8(a).

<sup>33</sup> North Marshall District's Response to Staff's Second Request, Item 7(b)(2).

<sup>34</sup> North Marshall District's Response to Staff's Second Request, Item 8(a).

<sup>35</sup> North Marshall District's Response to Staff's Second Request, Item 8(d).



(E) Salaries and Wages – Employees. In its application, North Marshall District proposed an adjustment to increase test year Salaries and Wages - Employees by \$122,683 to account for increases in Wage rates and an additional employee.<sup>36</sup> North Marshall District provided its test-year, and current employee list, hours worked, and employee wages.<sup>37</sup> Subsequent to the test year a new employee was hired.<sup>38</sup> Commission Staff calculated the test year Salaries and Wages – Employees, utilizing the normalized test year’s hours at 2,080, the hours worked when an employee is required to work on a holiday,<sup>39</sup> and the current wage rates including the new full time employee. Based on the Normalized test year, Commission Staff agrees with North Marshall District’s proposed adjustment and increased Salaries and Wages – Employees by \$122,683, as was proposed by North Marshall District.

---

<sup>36</sup> Application, Attachment 4, References, Adjustment B.

<sup>37</sup> North Marshall District's Response to Staff's First Request, Item 1(d).

<sup>38</sup> Application, Attachment 4, References, Adjustment B.

<sup>39</sup> North Marshall District's Response to Commission Staff's Telephone Request for Information (Staff's Telephone Request) (filed Aug. 10, 2023), Item 1.

Test Year hours with Current Wages									
Employee Position	Total Hours	Test Year Normal Hours	Test Year Holiday Hours	Current Wages Rates	Pro Forma Normal & Holiday Wages	Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages
Manager	2,080	2,080		Salary	\$ 102,024				\$ 102,024
Class III Operator	2,116	2,080	36	\$ 25.80	54,593	210.00	\$ 38.70	\$ 8,127	62,720
Class III Operator	2,120	2,080	40	28.85	61,162	236.50	43.28	10,235	71,397
Billing Clerk	2,080	2,080		23.70	49,296		35.55	-	49,296
Class III Operator	2,115	2,080	35	24.00	50,748	169.50	36.00	6,102	56,850
Class III Operator	2,116	2,080	36	31.05	65,702	127.00	46.58	5,915	71,617
Class III Operator	2,120	2,080	40	29.00	61,480	104.00	43.50	4,524	66,004
Office Personnel	2,080	2,080		24.15	50,232	2.00	36.23	72	50,304
Bookkeeper	1,863	1,863		25.55	47,600		38.33	-	47,600
Class III Operator	2,080	2,080		29.10	60,528	216.50	43.65	9,450	69,978
Class III Operator	2,120	2,080	40	23.50	49,820	77.50	35.25	2,732	52,552
	<u>22,890</u>				<u>\$ 653,184</u>			<u>\$ 47,157</u>	
Total Collection- Labor, Materials and Expenses									700,341
Less: Collection- Labor, Materials and Expenses									<u>(577,658)</u>
Collection- Labor, Materials and Expenses Adjustment									122,683
Less: North Marshall District Proposed Adjustment									<u>(122,683)</u>
Commission Staff Proposed Adjustment									<u>\$ -</u>

(F) Expenses Related to Meter Installations. In its application, North Marshall District proposed an adjustment to decrease test year Materials and Supplies by \$40,180<sup>40</sup> and Salaries and Wages – Employees by \$17,220<sup>41</sup> to account for tapping fees that were included as part of these expenses. During 2021, North Marshall District installed 44 new water connections.<sup>42</sup> The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.<sup>43</sup> Commission Staff agrees with North Marshall District’s proposed methodology. However, in the application, North Marshall District reported it had collected \$57,400 in tapping fees;<sup>44</sup> in subsequent discovery, North

<sup>40</sup> Application, Attachment 4, References, Adjustment J.

<sup>41</sup> Application, Attachment 4, References, Adjustment C.

<sup>42</sup> North Marshall District’s Response to Staff’s First Request, Item 6, 6.NMWD\_2021\_TAPS.pdf.

<sup>43</sup> USoA, Accounting Instruction 19 and 33.

<sup>44</sup> Application, Attachment 4, References, Adjustment C.

Marshall District adjusted the tap fee collected in the test year to \$30,525.<sup>45</sup> Therefore, Commission Staff calculated a net decrease to the expense using the \$30,525 tap fees collected, and decreased Materials and Supplies expense of \$21,368, which is \$18,813 less than North Marshall District Proposed; and a decrease to Salaries and Wages – Employees of \$9,158, which is \$8,063 less than North Marshall District’s proposal as shown below. Additionally, Commission Staff capitalized the costs and made a corresponding adjustment to test-year depreciation as shown in adjustment (Q).

	Salaries and Wages Employees	Materials and Supplies
Tap Fees	\$ 30,525	\$ 30,525
Times Allocation percent:	30%	70%
Total Proposed Adjustment	(9,158)	\$ (21,368)
Less: North Marshall District Proposed Adjustment	17,220	40,180
Commission Staff Proposed Adjustment	<u>\$ 8,063</u>	<u>\$ 18,813</u>

(G) Employee Pensions and Benefits - Pensions. In the application North Marshall District proposed an adjustment to increase Employee Pensions and Benefits by \$29,915 to reflect an increase in County Employee Retirement System (CERS) contributions due to an increase in Salaries and Wages.<sup>46</sup> Commission Staff notes that North Marshall District used a 25.065 percent contribution rate for CERS.<sup>47</sup> Effective July 1, 2023, the contribution rate for nonhazardous employees is 23.34 percent.<sup>48</sup> Further,

---

<sup>45</sup> North Marshall District’s Supplemental Response to Staff’s Telephone Request (filed Aug. 24, 2023), Item 2.

<sup>46</sup> Application, Attachment #4, Adjustment E.

<sup>47</sup> North Marshall District’s Response to Staff’s First Request, Item 1h, NMWD\_Rate\_Study.xlsx.

<sup>48</sup> Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

Commission Staff notes that North Marshall District did not make Governmental Accounting Standards Board (GASB) adjustment 68 and 74<sup>49</sup> to its test year CERS contributions. Commission Staff calculated two adjustments using the information above and the table below. The first adjustment is a \$12,045 decrease to North Marshall District's proposed adjustment resulting in a net total decrease of \$17,870 to Employee Pensions (CERS) expense to reflect the correct CERS contribution percent of 23.345. The second is a \$109,828 decrease to Employee Pensions (CERS) expense to reflect the GASB 68 and 74 adjustment for expense amounts recorded in excess of contributions.

As explained in Adjustment (E) above, Commission Staff increased Salaries and Wages - Employees to \$700,341.

	<u>Commission Staff Proposed</u>
Salaries and Wages - Employees	\$ 700,341
Multiplied by: Current CERS Contribution Rate	<u>23.35%</u>
CERS Retirement- Employer Contribution	163,495
Less: Test Year Pension & OPEB Expense	<u>(145,625)</u>
Employee Pensions and Benefits Adjustment	17,870
Less: North Marshall District Proposed Adjustment	<u>(29,915)</u>
Commission Staff Proposed Adjustment	<u><u>\$ (12,045)</u></u>

---

<sup>49</sup>Kentucky Public Pensions Authority, GASB Overview (<https://www.kyret.ky.gov/Employers/GASB/Pages/default.aspx>).

	North Marshall District	Commission Staff	Commission Adjustments
Pension/OPEB			
Wages Applicable to CERS Payments	700,341	\$ 700,341	\$ -
Percent Pension Contribution Rate	25.065%	23.345%	-1.72%
Pro Forma Pension Contribution	<u>\$ 175,540</u>	<u>\$ 163,495</u>	<u>\$ (12,045)</u>
Test Year Walkforward to Pro Forma			
Test Year Pension	\$ 255,453	\$ 255,453	\$ -
GASB 68 and 74 Adjustment	-	(109,828)	(109,828)
Adjustment	<u>29,915</u>	<u>17,870</u>	<u>(12,045)</u>
Total Commission Staff Adjustments	<u>\$ 285,368</u>	<u>\$ 163,495</u>	<u>\$ (121,873)</u>

(H) Employee Pensions and Benefits – Insurance. In the application, North Marshall District proposed to increase Employee Pensions and benefits by \$397 to reflect an increase in health and Dental insurance to allowable employer share.<sup>50</sup> North Marshall District currently pays 100 percent for full-time employees’ health insurance plans.<sup>51</sup> 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.<sup>52</sup>

---

<sup>50</sup> Application, Attachment 4, References, Adjustment D.

<sup>51</sup> North Marshall District’s Response to Staff’s Telephone Request, Item 1.

<sup>52</sup> 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 precedent,<sup>53</sup> Commission Staff proposed to reduce North Marshall District's single health insurance premiums by 22 percent,<sup>54</sup> family insurance premiums by 34 percent,<sup>55</sup> and dental insurance premiums by 60 percent<sup>56</sup> as shown in the calculation below. North Marshall District provided the most recent copy of its health and dental insurance invoices,<sup>57</sup> allowing Commission Staff to include the increase to insurance premiums in the calculations; and the test year amount reported for insurance premiums.<sup>58</sup> Accordingly, utilizing the most recent invoice amounts, Commission Staff recalculated the proposed adjustment and decreased Employee Pension and Benefits by \$16,525; which is \$16,922 more than North Marshall District initially proposed as shown in the table below.

---

<sup>53</sup> 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.

<sup>54</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>55</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>56</sup> Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Mar. 24, 2020). Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Mar. 5, 2021). Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

<sup>57</sup> North Marshall District's Response to Staff's First Request, Item 4, 4.NMWD\_Health-Vision-Dental.pdf.

<sup>58</sup> North Marshall District's Response to Staff's First Request, Item 1a, 1.(a)\_2021\_NMWD\_Trial\_Balance.xls, account 60400001 Hospital Insurance \$95,126 and 60400004 Life/Dental Insurance \$9,611.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	6	\$ 3,621	22%	\$ (797)	\$ 2,824
Family Health Insurance	5	6,396	34%	(2,175)	4,221
Dental Insurance	11	765	60%	(459)	306
Total Pro Forma Monthly Premium		10,782		(3,431)	7,351
Times: 12 Months		<u>12</u>		<u>12</u>	<u>12</u>
Total Annual Pro Forma Premium		<u>\$ 129,384</u>		<u>\$ (41,172)</u>	88,212
Less: Test Year Health and Dental Insurance Premiums					<u>(104,737)</u>
Employee Pension and Benefits Adjustment					(16,525)
Less: North Marshall District Proposed Adjustment					<u>(397)</u>
Final Employee Pension and Benefits Adjustment					<u>\$ (16,922)</u>

(l) Employee Pensions and Benefits - Disability. In the application, North Marshall District proposed an adjustment to increase Employee Pension and Benefits by \$1,051, to account for an increase in disability insurance costs.<sup>59</sup> North Marshall District provided the most recent invoice for life and disability insurance.<sup>60</sup> Commission Staff compared the most recent invoice and compared it to the test year disability insurance of \$11,276.<sup>61</sup> Therefore, based on the normalized test year, Commission Staff increased Employee Pensions and Benefits by \$1,655, which is \$604 more than what was proposed by North Marshall District.

<sup>59</sup> Application, Attachment 4, References, Adjustment F.

<sup>60</sup> North Marshall District's Response to Staff's First Request, Item 4, 4.NMWD\_Lincoln (ST-LT-Life).xlsx.

<sup>61</sup> North Marshall District's Response to Staff's First Request, Item 1a, 1. (a)\_2021\_NMWD\_Trial\_Balance.xls, account 60400003 Disability insurance.

Accidental Death and Dismemberment	\$ 25
Weekly Income	445
Long Term Disability	<u>608</u>
Total Life and Disability Insurance	1,078
Times 12 months	<u>12</u>
Annual Disability Insurance	12,931
Less Test Year Disability Insurance	<u>(11,276)</u>
Total Disability Insurance	1,655
Less Noth Marshall District Proposed Adjustment	<u>(1,051)</u>
Commission Staff Proposed Adjustment	<u>\$ 604</u>

(J) Employee Pensions and Benefits – Education and Training. In the application, North Marshall District proposed an adjustment to increase Employee Pension and Benefits by \$2,065, to account for an increase in education and training expenses that occurred in 2022.<sup>62</sup> North Marshall District provided a list of the training programs in which it now participates. North Marshall District has implemented an asset management system that will require annual training in order to remain current.<sup>63</sup> North Marshall District has seven certified operators that require 24 hours of training every two years, one more employee than during the test year.<sup>64</sup> These additional trainings in addition to an increase in individual training sessions justifies an increase in test year training and education expense. Commission Staff reconciled the test year education and training expense account<sup>65</sup> with the 2022 education and training expense account<sup>66</sup>

---

<sup>62</sup> Application, Attachment 4, References, Adjustment G.

<sup>63</sup> North Marshall District's Response to Staff's Telephone Request, Item 2.

<sup>64</sup> North Marshall District's Response to Staff's Telephone Request, Item 2.

<sup>65</sup> North Marshall District's Response to Staff's First Request, Item 1a, 1. (a)\_2021\_NMWD\_Trial\_Balance.xls, account 60400005 Education and Training Exp.

<sup>66</sup> North Marshall District's Response to Staff's First Request, Item 1a, 1. (a)\_2022\_NMWD\_Trial\_Balance.xls, account 60400005 Education and Training Exp.



and determined an increase of \$2,082, which is \$17 more than what was proposed by North Marshall District, is required as shown below.

2022 Education and Training Expense	\$ 14,542
Test year Education and Training Expense	<u>(12,459)</u>
Training and Education and Training Adjustment	2,082
Less: North Marshall District Proposed Adjustment	<u>(2,065)</u>
Commission Staff Proposed Adjustment	<u>\$ 17</u>

(K) Chemicals. In the application, North Marshall District proposed an adjustment to increase Chemical Expense by \$7,355 due to an increase in vendor costs.<sup>67</sup> North Marshall District provided the test year chemicals purchased amounts,<sup>68</sup> and the current purchased rate for chemicals.<sup>69</sup> In order to normalize the Chemical Expense, Commission Staff calculated a revised pro forma purchased water expense using the test year volumes purchased and the current unit prices. This results in a purchased water expense of \$28,720. Therefore, Commission Staff increased Chemical expense by \$2,553; which is \$4,802 less than proposed by North Marshall District as shown below.

---

<sup>67</sup> Application, Attachment 4, References, Adjustment I.

<sup>68</sup> North Marshall District's Response to Staff's First Request, Item 8, 8.CHEMICAL\_SUM.xlsx.

<sup>69</sup> North Marshall District's Response to Staff's First Request, Item 9, 9.Current ChemicalUnitPrices.pdf.

Month	Chlorine						Hydrofluorosilicic Acid				Ortho- Phosphate				Total
	Current Vendor	Volume (lbs)	Unit Price	Container Deposit	Trans, Ins & Sec	Sub-Total	Current Vendor	Volume (lbs)	Unit Price	Sub-total	Current Vendor	Volume (lbs)	Unit Price (lbs)	Sub-Total	
January	Brentagg	600	\$1,285	\$ -	\$ 59	\$1,343	Chemstream	2,200	0.6	\$ 1,324	Hawkins			\$ 2,668	
February	Brentagg	-	-	-	-	-	Chemstream				Hawkins			-	
March	Brentagg	-	-	-	-	-	Chemstream	2,200	0.6	1,324	Hawkins	2,479	0.41	\$3,044	4,368
April	Brentagg	300	642	(500)	168	310	Chemstream				Hawkins			310	
May	Brentagg	150	321	-	60	381	Chemstream	2,200	0.6	1,324	Hawkins			1,706	
June	Brentagg	300	642	(500)	90	232	Chemstream	2,200	0.6	1,324	Hawkins	2,508	0.41	3,080	4,637
July	Brentagg	300	642	-	91	734	Chemstream	1,100	0.6	662	Hawkins			1,396	
August	Brentagg	450	963	-	183	1,146	Chemstream	2,200	0.6	1,324	Hawkins			2,470	
September	Brentagg	450	963	100	100	1,163	Chemstream	1,100	0.6	662	Hawkins	3,135	0.41	3,850	5,676
October	Brentagg	450	963	-	200	1,163	Chemstream	1,650	0.6	993	Hawkins			2,157	
November	Brentagg	300	642	-	100	742	Chemstream	1,100	0.6	662	Hawkins			1,404	
December	Brentagg	400	856	100	311	1,268	Chemstream	1,100	0.6	662	Hawkins			1,930	
						\$8,483									
														\$10,264	
Total Chemical Expenses														28,720	
Less: Test Year Chemical Expense														(26,167)	
Chemical Expense Adjustment														2,553	
Less: North Marshall District Proposed Adjustment														(7,355)	
Total Chemical Expense Adjustment														\$ (4,802)	

(L) Expenses Attributable to Water Loss. In the application, North Marshall District proposed adjustments to reduce Purchased Power Expense by \$18,159, and Chemical Expense by \$2,843 to reflect the removal of costs for water in excess of 15 percent.<sup>70</sup> During the test year, North Marshall District reported a water loss of 25.8658 percent.<sup>71</sup> As previously mentioned, Commission regulations prohibit the recovery of expenses for water loss in excess of 15 percent. Commission Staff reviewed purchased Power and Chemical Expense and agree with North Marshall District's proposed methodology. Commission Staff calculated a different adjustment for purchased power and chemical costs. When adjustment (K) is taken into account in determining Chemical Expenses, Commission Staff calculated an overall decrease to Chemical Expense of \$3,121, which is an additional decrease of \$278 more than what North Marshall District proposed, as shown in the table below.

<sup>70</sup> Application, Attachment 4, References, Adjustment H.

<sup>71</sup> Application, Attachment 4, References, Adjustment H.

	Purchased Power	Chemicals & Lab Testing	Total
Pro Forma Expenses	\$ 167,123	\$ 28,720	\$ 195,843
Multiply by: Water loss in Excess of 15 Percent	10.8658%	10.8658%	10.8658%
Excess Water Loss Adjustment	18,159	3,121	21,280
Less North Marshall District Proposed Adjustment	<u>(18,159)</u>	<u>(2,843)</u>	<u>(21,002)</u>
Total Proposed Purchased Power Adjustment	<u>\$ -</u>	<u>\$ 278</u>	<u>\$ 278</u>

(M) Miscellaneous Expense – Reconciliation. In the application, North Marshall District reported a net Miscellaneous Expense of \$82,365.<sup>72</sup> Commission Staff reviewed the Adjusted Trial Balance and determined Miscellaneous Expenses should be \$81,838.<sup>73</sup> Therefore, Commission Staff reduced Miscellaneous Expense by \$527 in order to reconcile the difference between the application and Adjusted Trial Balance, as shown below.

Miscellaneous Expenses		
61600001	Generator Expense	\$ 617
40810000	Regulatory Agency Expense	3,269
40812000	Payroll Tax	46,381
40813000	Unemployment Insurance	2,295
63400001	GIS Fees	6,000
65800001	Injuries And Damages	233
67500003	Maintenance Of General Plant	775
67500004	Telephone Expense	19,258
67500005	Sewer Exp-To Set Up	550
67510000	Safety Supplies	<u>2,460</u>
Total Test Year Miscellaneous Expenses		81,838
Less: Test Year Miscellaneous Expenses		<u>(82,365)</u>
Pro Forma Miscellaneous Expense Adjustment		<u>\$ (527)</u>

<sup>72</sup> Application, Attachment 4, Statement of Adjusted Operations.

<sup>73</sup> North Marshall District's Response to Staff's First Request, Item 1a, 1. (a)\_2021\_NMWD\_Trial\_Balance.xls.

(N) Miscellaneous Expense – Payroll. In its application, North Marshall District proposed to increase Taxes other than Income by \$9,505 to account for an increase in payroll taxes due to the proposed increase in Salaries and Wages Expense.<sup>74</sup> As explained in Adjustment (E) above; Commission Staff calculated pro forma Salaries and Wages – Employees of \$700,341. Commission Staff calculated an increase to Taxes other than Income of \$9,505 as shown below. Therefore, Commission Staff agrees with North Marshall District’s proposed adjustment to increase Miscellaneous Expense by \$9,505, as shown below.

	Staff Pro Forma
Salareis and Wages - Employees	\$ 700,341
Salareis and Wages - Officers	<u>30,200</u>
Total Pro Forma Salaries	730,541
Times: 7.65 Percent FICA Rate	<u>7.65%</u>
Total Pro Forma Payroll Taxes	55,886
Less: Test Year Payroll Taxes	<u>(46,381)</u>
Payroll Tax Adjustment	9,505
Less: North Marshall District Proposed Adjustment	<u>(9,505)</u>
Commission Staff Proposed Adjustment	<u>\$ -</u>

(O) Miscellaneous Expense – Reclassify Payroll Taxes. During the test year, North Marshall District reported the Payroll Taxes as part of Miscellaneous Expenses rather than Taxes other than Income.<sup>75</sup> As discussed in Adjustment (M) above, Commission Staff calculated a payroll tax expense of \$55,886 and adjusted Miscellaneous Expense to account for the change. Therefore, in order to make sure the

---

<sup>74</sup> Application, Attachment 4, Adjustment K.

<sup>75</sup> 2021 Annual Report at 51.

payroll taxes were recorded in the correct category, Commission Staff reduced Miscellaneous Expense by \$55,886 and increased Taxes other than Income by \$55,886.

(P) Depreciation Expense. In its application, North Marshall District proposed an increase in Depreciation Expense of \$8,205 to account for additional assets added subsequent to the test year and to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).<sup>76</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has used the midpoint of the NARUC ranges to depreciate the utility plant. Upon examination, Commission Staff calculated a depreciation expense of \$379,837. North Marshall District proposed to depreciate meter change-outs over 15 years.<sup>77</sup> North Marshall District provided evidence that a 20-year useful life would be appropriate for its electronic radio read meters;<sup>78</sup> therefore, Commission Staff recommends depreciating meters over a 20-year service life. Commission Staff found no evidence to support depreciable lives for the remaining assets other than the midpoint of the NARUC ranges, and decreased North Marshall District's Depreciation Expense by \$46,635, a net decrease of \$54,840 compared to North Marshall District's proposed adjustment, as shown below.

---

<sup>76</sup> Application, Attachment 4, Adjustment L.

<sup>77</sup> Application, Attachment 4, Table A, Depreciation Expense Adjustments.

<sup>78</sup> North Marshall District's Response to Staff's Telephone Request, Item 3.

Asset Category	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Structures and Improvements	35 - 40	\$ 68,439	\$ 14,659	\$ 83,098
Wells and Springs	25 - 35	4,502	3,001	7,503
Supply Mains	50 - 75	10	(2)	8
Water Treatment Equipment	20 - 35	1,197	467	1,664
Pumping Equipment	20	8,139	3,863	12,002
Services	30 - 50	29	7	37
Hydrants	40 - 60	288	(129)	159
Transmission & Distribution Mains	50 - 75	143,160	(28,632)	114,528
Meter Change-outs	20	63,764	10,493	74,256
Meter Installations	40 - 50	36,036	(19,780)	16,256
Reservoirs & Tanks	30- 60	18,787	2,087	20,874
Transportation Equipment	7	37,935	(11,604)	26,332
Office Furniture and Equipment	20 - 25	2,015	(1,499)	517
Tools, Shop, & Garage Equipment	15 - 20	8,220.87	(5,872)	2,348.82
Power Operated Equipment	10 - 15	3,950.00	(2,370)	1,580.00
Communications & Computer Eqmt.	10	22,120	(11,327)	10,793
<b>Total</b>		<b>\$ 418,590</b>	<b>(46,635)</b>	<b>\$ 371,955</b>
Less: North Marshall Proposed Adjustment			<b>(8,205)</b>	
Commission Staff's proposed adjustment			<b>\$ (54,840)</b>	

(Q) Capitalization of Test-Year Water Taps. As explained in Adjustment (F) above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. Since North Marshall District uses radio read meters and provided evidence for an alternative service life, Commission Staff utilized a 20-year service life. A review of the depreciation schedule for the test year did not record any new meters added to the assets for the year.<sup>79</sup> Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$1,526 as shown below.

Test Year Water Connections Expenses	\$ 30,525
Divided by: Useful Life of 20 Years	<u>20.0</u>
Depreciation Adjustment	<u>\$ 1,526</u>

<sup>79</sup> Application, Attachment 7, 7.\_2021\_Depreciation\_Schedule.xls.

(R) Rate Case Expense. In the application, North Marshall District proposed an adjustment to increase Amortization Expense by \$2,500 to reflect the three-year amortization of the estimated rate case expense.<sup>80</sup> North Marshall District contracted with Kentucky Rural Water Association (KRWA) to assist with the application.<sup>81</sup> KRWA provided a quote for \$7,500 to prepare the rate case.<sup>82</sup> Furthermore, North Marshall District has incurred an additional \$454 to publish the public notice.<sup>83</sup> Commission Staff calculated the rate case expense, including the newspaper fees, and determined an annual rate case expense of \$2,651. Therefore, Commission Staff increased North Marshall District's Amortization Expense by \$2,651, which is \$151 more than North Marshall District's proposed adjustment.

Research, analysis, and PSC filings	\$ 6,000
Kentucky Rural Water Association administrative Services	1,500
Other Expenses	<u>454</u>
Total Rate Case Expense	7,954
Amortized over three years	<u>3</u>
Annual Amortization of Rate Case Expense	2,651
Less North Marshall District's Proposed Adjustment	<u>(2,500)</u>
Commission Staff's Proposed Adjustment	<u><u>\$ 151</u></u>

---

<sup>80</sup> Application, Attachment 4, Adjustment M.

<sup>81</sup> North Marshall District's Response to Staff's Second Request, Item 2a.

<sup>82</sup> North Marshall District's Response to Staff's Second Request, Item 2a, 2.North\_Marshall\_WD\_Proposal.pdf.

<sup>83</sup> North Marshall District's Response to Staff's Second Request, Item 2a,

OVERALL REVENUE REQUIREMENT AND  
REQUIRED REVENUE INCREASE

The OR Method is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Therefore, Commission Staff finds the OR method is more appropriate than the Debt Service Coverage (DSC) method, as at the time of Commission Staff's review, North Marshall District only had two outstanding United States Department of Agriculture Rural Development (RD) Bonds. Commission Staff is of the opinion that an operating ratio of 88 percent will allow North Marshall District sufficient revenues to cover its reasonable operating expenses and provide for reasonable equity growth.

By applying the OR method, Commission Staff found North Marshall District's Revenue Requirement from Rates for Service to be \$2,351,782. A revenue increase of \$341,224, or 16.97 percent, is necessary to generate the Overall Revenue Requirement of \$2,383,987.

	<u>North Marshall Water District</u>	<u>Commission Staff</u>	
Pro Forma Operating Expenses	\$ 2,171,354	\$ 2,001,288	
Divided by: Operating Ratio	88%	88%	
Plus: Average Interest Expense	<u>114,947</u>	<u>109,796</u>	(1)
Total Revenues Requirement	2,582,395	2,383,987	
Less: Other Operating Revenue	84,426	(26,442)	
Interest Income	<u>-</u>	<u>(5,763)</u>	(2)
Revenue Required From Sales of Water	2,497,969	\$ 2,351,782	
Revenue from Sales with Present Rates	<u>(2,024,170)</u>	<u>(2,010,558)</u>	
Required Revenue Increase	<u>\$ 473,800</u>	<u>\$ 341,224</u>	
Percentage Increase	<u>23.41%</u>	<u>16.97%</u>	



1. Average Annual Interest and Fees Payments. In its application, North Marshall District requested recovery of the average annual interest on its indebtedness.<sup>84</sup> At the time of Commission Staff’s review, North Marshall District had two outstanding RD bonds. Since the statutory date for an Order to be issued in this proceeding is March 15, 2024, the 2023 payments will be recovered through North Marshall District’s existing rates. Therefore, Commission Staff included the average annual interest on a five-year average for the years 2024 through 2028. Commission Staff calculated an Average Interest Expense of \$109,796 as shown below.

Debt Service Schedule			
Year	USDA Series 2014 Bond Interest	USDA Series 2022 Bond Interest	Total
2024	\$ 75,792	\$ 39,975	\$ 115,767
2025	74,172	39,210	113,382
2026	72,506	38,438	110,944
2027	67,191	37,650	104,841
2028	67,191	36,855	104,046
Total	<u>\$ 356,852</u>	<u>\$ 192,128</u>	548,980
	Divide by: 5 years		<u>5</u>
	Average Annual Interest Payment		<u>\$ 109,796</u>

2. Interest and Dividend Income. In its application, North Marshall District reported \$0 Interest Income in the Revenue Requirement calculation.<sup>85</sup> The Trial Balance

<sup>84</sup> Application, Attachment 4, Revenue Requirements Using Operating Ratio Method.

<sup>85</sup> Application, Attachment 4, Revenue Requirements Using Operating Ratio Method.

includes interest income of \$5,763.<sup>86</sup> The OR Method to calculate the Overall Revenue Requirement does not allow for the recovery of Interest and Dividend Income. Therefore, Commission Staff reduced the Overall Revenue Requirement by \$5,763.

---

<sup>86</sup> North Marshall District's Response to Staff's First Request, Item 1a, 1. (a)\_2021\_NMWD\_Trial\_Balance.xls, account 41900000 Interest Income.

Signatures

/s/ William M. Foley

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

/s/ Eddie Beavers

Prepared by: Eddie Beavers  
Rate Design Branch  
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY  
PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00134 DATED SEP 07 2023

**Nonrecurring Charges Adjustments**

Connection/Turn-On/Field Collection/Meter Reread

	North Marshall District Updated Charge	Commission Staff Revised Charge
Field Labor at \$27.33 for 0.5 hour	\$13.67	\$0.00
Supplies	\$0.00	\$0.00
Office Labor at \$24.47 for 0.25 hours	\$6.12	\$0.00
Transportation Expense	\$ 5.24	\$5.24
Total Nonrecurring Charge Expense	\$25.02	\$5.24
Rounded Down to	\$25.00	\$5.25
Current Rate	\$25.00	

Connection/Turn-On After Hours Charge

	North Marshall District Updated Charge	Commission Staff Revised Charge
Field Labor Overtime at \$27.33 for 3.0 hour	\$81.99	\$81.99
Supplies	\$0.00	\$0.00
Office Labor at \$24.47 for 0.25 hours	\$6.12	\$0.00
Transportation Expense	\$10.48	\$10.48
Total Nonrecurring Charge Expense	\$98.59	\$92.47
Rounded Down to	\$98.60	\$92.50
Current Rate	\$67.00	

Meter Re-Installation Charge

	North Marshall District Updated Charge	Commission Staff Revised Charge
Field Labor at \$27.33 for 1.0 hour	\$27.33	\$0.00
Supplies	\$0.00	\$0.00
Office Labor at \$24.47 for 0.5 hours	\$12.24	\$0.00
Transportation Expense	\$10.48	\$10.48
Total Nonrecurring Charge Expense	\$50.05	\$10.48
Rounded Down to	\$50.00	\$10.50
Current Rate	\$50.00	

Meter Test Charge

	North Marshall District Updated Charge	Commission Staff Revised Charge
Field Labor at \$27.33 for 1.0 hour	\$27.33	\$0.00
Supplies	\$0.00	\$0.00
Office Labor at \$24.47 for 0.5 hours	\$12.24	\$0.00
Transportation Expense	\$13.10	\$13.10
Total Nonrecurring Charge Expense	\$52.67	\$13.10
Rounded Down to	\$53.00	\$13.00
Current Rate	\$50.00	

Reconnection Charge

	North Marshall District Updated Charge	Commission Staff Revised Charge
Field Labor at \$27.33 for 1.0 hour	\$27.33	\$0.00
Supplies	\$0.00	\$0.00
Office Labor at \$24.47 for 0.5 hours	\$12.24	\$0.00
Transportation Expense	\$20.96	\$20.96
Total Nonrecurring Charge Expense	\$60.54	\$20.96
Rounded Down to	\$60.50	\$21.00
Current Rate	\$50.00	

Reconnection After Hours Charge

	North Marshall District Updated Charge	Commission Staff Revised Charge
Field Labor Overtime at \$27.33 for 3.0 hour	\$81.99	\$81.99
Supplies	\$0.00	\$0.00
Office Labor at \$24.47 for 0.50 hours	\$12.24	\$0.00
Transportation Expense	\$15.72	\$15.72
Total Nonrecurring Charge Expense	\$109.95	\$97.71
Rounded Down to	\$110.00	\$98.00
Current Rate	\$92.00	

Returned Check Charge

	North Marshall District Updated Charge	Commission Staff Revised Charge
Field Labor	\$0.00	\$0.00
Supplies	\$0.00	\$0.00
Office Labor at \$24.47 for 0.333 hours	\$8.15	\$0.00
Transportation Expense	\$0.00	\$0.00
Bank Charge	\$15.00	\$15.00
Postage	\$0.55	\$0.55
Total Nonrecurring Charge Expense	\$33.82	\$15.55
Rounded Down to	\$34.00	\$15.60
Current Rate	\$25.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY  
PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00134 DATED SEP 07 2023

The following rates and charges are prescribed for the customers in the area served by North Marshall 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.

Bi-Monthly Water Rates

<u>Meter Charge</u>		
<u>5/8- x 3/4-Inch Meter</u>	\$ 27.48	Minimum Bill
<u>1-Inch Meter</u>	\$ 38.35	Minimum Bill
<u>1 1/2-Inch Meter</u>	\$ 56.50	Minimum Bill
<u>2-Inch Meter</u>	\$ 78.31	Minimum Bill
<u>3-Inch Meter</u>	\$ 129.14	Minimum Bill
<u>4-Inch Meter</u>	\$ 201.79	Minimum Bill
<u>6-Inch Meter</u>	\$ 383.35	Minimum Bill
<u>Usage Charge</u>	0.00381	Per Gallon

**Nonrecurring Charges**

Connection/Turn-On Charge	\$5.25
Connection Charge After Hours	\$92.50
Field Collection Charge	\$5.25
Meter Box or Lid Replacement Charge	Actual Costs
Meter Re-installation Charge	\$10.50
Meter Relocation Charge	Actual Costs
Meter Reread	\$5.25
Meter Test Charge	\$13.00
Reconnection Charge	\$21.00
Reconnection Charge After Hours	\$98.00
Returned Check Charge	\$15.60
5/8 x 3/4 Meter Tap On Fee	\$1,400

\*Kimberly Smith  
North Marshall Water District  
96 Carroll Road  
Benton, KY 42025

\*Roger Colburn  
North Marshall Water District  
96 Carroll Road  
Benton, KY 42025

\*North Marshall Water District  
96 Carroll Road  
Benton, KY 42025

\*Sam Reid  
Judy Water Association, Inc.  
P. O. Box 781  
Mt. Sterling, KY 40353-0781