

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WESTERN	)	
MASON COUNTY WATER DISTRICT FOR A	)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR	)	2023-00182
5:076	)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of August 8, 2023, 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 August 8, 2023 Order, Western Mason County Water District (Western Mason District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Western Mason 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 NOV 14 2023

cc: Parties of Record

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<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).

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COMMISSION STAFF'S REPORT  
ON WESTERN MASON COUNTY WATER DISTRICT

Western Mason County Water District (Western Mason District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 1,039 residential customers, 22 commercial customers, who reside in Bracken and Mason counties, Kentucky, as well as and 2 Bulk Loading Stations.<sup>1</sup>

On July 10, 2023,<sup>2</sup> Western Mason District filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,<sup>3</sup> Western Mason District used the calendar year ended December 31, 2022, as the basis for its application. Western Mason District's last base rate increase pursuant to the alternative rate filing procedure

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<sup>1</sup> *Annual Report of Western Mason District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49

<sup>2</sup> Western Mason District tendered its application on May 30, 2023. By letters dated June 6, 2023, June 19, 2023, and June 20, 2023; the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on July 10, 2023.

<sup>3</sup> The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

was in Case No. 2014-00421.<sup>4</sup> Since that matter, Western Mason District has only adjusted its rates pursuant to financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated August 8, 2023. Western Mason District responded to two discovery requests from Commission Staff.<sup>5</sup>

### UNACCOUNTED-FOR WATER LOSS

The Commission notes that in Western Mason District's 2022 Annual Report, Western Mason District reported a water loss of 11.4872 percent.<sup>6</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. Western Mason District produces its own water,<sup>7</sup> and its Chemicals expense is a part of Materials and Supplies.<sup>8</sup> The table below shows that the 2022 total annual cost of water loss to Western Mason District is \$6,420.

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<sup>4</sup> Case No. 2014-00421, *Alternative Rate Adjustment Filing of Western Mason County Water District*, (Ky. PSC May 15, 2015).

<sup>5</sup> Western Mason District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Sep. 1, 2023). Western Mason District's Response to Commission Staff's Second Request for Information (Western Mason District's Response to Staff's Second Request) (filed Oct. 9, 2023).

<sup>6</sup> 2022 Annual Report, at 57.

<sup>7</sup> 2022 Annual Report, at 57.

<sup>8</sup> Western Mason District's Response to Staff's Second Request, Item 3.

	<u>Purchased Power</u>	<u>Chemicals &amp; Lab Testing</u>	<u>Total</u>
Pro Forma Expenses	\$ 51,868	\$ 4,024	\$ 55,892
Miltiply by: Total Water loss	<u>11.4872%</u>	<u>11.4872%</u>	<u>11.4872%</u>
 Total Cost	 <u>\$ 5,958</u>	 <u>\$ 462</u>	 <u>\$ 6,420</u>

### DISCUSSION

Using its pro forma test-year operations, Western Mason District determined that a base rate revenue increase of \$211,093, or 27.06 percent, was necessary to achieve the revenue requirement as shown in the table below.<sup>9</sup> Western Mason District proposed utilizing the Debt Service Coverage (DSC) method to determine the revenue requirement, which is discussed later in the report. The rates requested by Western Mason District would increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$15.57, from \$57.56 to \$73.13, or approximately 27.05 percent.<sup>10</sup>

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<sup>9</sup> Application, Exhibit 4, Revenue Requirements.

<sup>10</sup> Application, Attachment 1, Customer Notice.

	<u>Western Mason Water District</u>
Pro Forma Operating Expenses	
Plus: Avg. Annual Principal and Interest Payments	\$ 734,792
Additional Working Capital	241,488
	<u>48,298</u>
Total Revenues Requirement	1,024,577
Less: Other Operating Revenue	21,293
Non-operating Revenue	11,940
Interest and Dividend Income	<u>93</u>
Revenue Required From Water Sales	991,251
Revenue from Sales at Present Rates	<u>780,158</u>
Required Revenue Increase	<u>\$ 211,093</u>
Percentage Increase	<u>27.06%</u>

To determine the reasonableness of the rates requested by Western Mason District, Commission Staff performed a limited review of Western Mason 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>11</sup> changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

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<sup>11</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 recommendations are summarized in this report. William Foley reviewed the calculation of Western Mason District's Overall Revenue Requirement, and Eddie Beavers reviewed Western Mason 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 Western Mason District's required revenue from water sales is \$991,092 to meet the Overall Revenue Requirement of \$1,034,666 and that a \$187,893 revenue increase, or 23.39 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Western Mason District proposed to increase its monthly retail water service rates by approximately 27.06 percent across the board. Western Mason District did not perform a cost of service study (COSS). Western Mason District stated that it did not complete a COSS at this time as there have been no material changes in the water system.<sup>12</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>13</sup> Since no COSS was conducted, and because there was no evidence that allocating revenue increase across the board was unreasonable,

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<sup>12</sup> Western Mason District's Response to Staff's First Request, Item 11.

<sup>13</sup> Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan 5, 2022).

Commission Staff allocated the \$187,893 revenue increase evenly across the board to Western Mason District's monthly retail and wholesale water service rates.

The rates, which are set forth in the Appendix 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 \$990,720 Revenue Required from Rates. The rates will increase a typical residential customer's monthly water bill from \$57.56 to \$72.31, an increase of \$14.75 or 25.60 percent.<sup>14</sup>

Nonrecurring Charges. Following the Commission's recent decisions,<sup>15</sup> Commission Staff has reviewed Western Mason 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 Western Mason District and adjusted these charges by removing Field Labor Costs of an average rate of \$37.52 per hour and Office/Clerical Labor Costs of an average rate of \$20.67 per hour from those charges which occur during normal business hours.<sup>16</sup> The following chart highlights Commission

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<sup>14</sup> The typical residential customer uses approximately 4,000 gallons per month. Application, Attachment 1.

<sup>15</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>16</sup> Western Mason District's Response to Staff's First Request, Item 6.

Staff's updated Nonrecurring Charges. Appendix B contains the calculations supporting the adjustments to the nonrecurring charges

**Nonrecurring Charges**

Meter Reread Fee	\$0.00
Reconnect Fee	\$21.00
Returned Check Fee	\$10.50
Turn On Charge	\$10.00
5/8-Inch Meter Tap Fee	\$1,840.00

PRO FORMA OPERATING STATEMENT

Western Mason District's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.



	2022 Test Year	Western Mason Proposed Adjustment	Commission Staff Proposed Adjustment	Total Proposed Adjustment	(Ref.)	Pro Forma
<b>Operating Revenues</b>						
Total Metered Water Sales	\$ 776,080		\$ 18,188	\$ 18,188	(A)	
		\$ 4,078	6,103	10,181	(B)	
			(1,250)	(1,250)	(B)	\$ 803,199
<b>Other Water Revenues</b>						
Forfeited Discounts			15,054	15,054	(C)	15,054
Misc. Service Revenues			1,078	1,078	(D)	1,078
Other Water Revenues	21,293		9,435	9,435	(A)	
			(15,319)	(15,319)	(E)	15,409
<b>Total Other Water Revenues</b>	<b>21,293</b>	<b>-</b>	<b>10,248</b>	<b>10,248</b>		<b>31,541</b>
<b>Total Operating Revenues</b>	<b>797,373</b>	<b>4,078</b>	<b>33,289</b>	<b>37,367</b>		<b>834,740</b>
<b>Operating Expenses</b>						
<b>Operation and Maintenance Expenses</b>						
Salaries and Wages - Employees	253,468		21,600	21,600	(A)	
		1,442	(21,600)	(20,158)	(F)	
		(1,800)		(1,800)	(G)	253,110
Salaries and Wages - Officers	14,400					14,400
Employee Pensions and Benefits	75,356	(26,899)	3,419	(23,480)	(H)	51,876
Purchased Power	51,868					51,868
Chemicals	-					-
Materials and Supplies	70,879	(4,200)		(4,200)	(G)	66,679
Contractual Services - Accounting	21,100					21,100
Contractual Services - Other	38,608					38,608
Transportation Expenses	6,689					6,689
Insurance - Other	14,797					14,797
Miscellaneous Expense	4,004		11,622	11,622	(A)	15,626
<b>Total Operation and Maintenance Expenses</b>	<b>551,169</b>	<b>(31,457)</b>	<b>15,041</b>	<b>(16,416)</b>		<b>534,753</b>
Depreciation	230,246	(34,667)	(5,994)	(40,661)	(I)	189,585
Taxes Other Than Income	19,762		584	584	(A)	
		(261)	889	628	(J)	20,974
<b>Utility Operating Expenses</b>	<b>801,177</b>	<b>(66,385)</b>	<b>10,520</b>	<b>(55,865)</b>		<b>745,312</b>
<b>Net Operating Income</b>	<b>(3,804)</b>	<b>70,463</b>	<b>22,769</b>	<b>93,232</b>		<b>89,428</b>
Gains (Losses) from Disposal of Utility Property	5,048	-	(5,048)	(5,048)	(K)	-
Interest and Dividend Income	93					93
Nonutility Income	11,940					11,940
<b>Income Available to Service Debt</b>	<b>\$ 13,277</b>	<b>\$ 70,463</b>	<b>\$ 17,721</b>	<b>\$ 88,184</b>		<b>\$ 101,461</b>

(A) Adjusted Trial Balance Reconciliation. Western Mason District based its application on its 2022 test year. However, when Commission Staff reviewed and reconciled the application with the 2022 Adjusted Trial Balance provided,<sup>17</sup> it determined

<sup>17</sup> Western Mason District's Response to Staff's First Request, (filed Sept. 1, 2023), Item 1b, 1b\_Adjusted\_Trial\_Balance\_2022.pdf.

the year-end audit adjusting entries 1 through 7<sup>18</sup> were not included in Western Mason District's calculation of the Schedule of Adjusted Operation's figures. Therefore, Commission Staff proposed several adjustments in order to reconcile the application with the Adjusted Trial Balance.

When Commission Staff reviewed Total Metered Sales, it discovered that Audit Adjustments 5 and 7 were not included; therefore, Commission Staff made an adjustment to increase Total Metered Sales by \$18,188.<sup>19</sup> When Commission Staff reviewed Other Water Revenues, it discovered that Audit Adjustment 4 was not included; therefore, Commission Staff made an adjustment to increase Other Water Revenues by \$9,435. When Commission Staff reviewed Salaries and Wages – Employees, it discovered that Audit Adjustments 2 and 3 were not included; therefore, Commission Staff made an adjustment to increase Salaries and Wages – Employees by \$21,600.<sup>20</sup> When Commission Staff reviewed Miscellaneous Expenses, it discovered that Audit Adjustments 1 and 6 were not included; therefore, Commission Staff made an adjustment to increase Salaries and Wages – Employees by \$11,622.<sup>21</sup> When Commission Staff reviewed Taxes Other Than Income, it discovered that Audit Adjustment 3 was not included; therefore, Commission Staff made an adjustment to increase Salaries and

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<sup>18</sup> Cover letter and 2022 Auditors Adjustments, (filed Sept. 1, 2023), 1b\_Audit\_Adjustments\_2022.pdf.

<sup>19</sup> Audit Adjusting Entry 5 of \$7,610 + Audit Adjusting Entry 7 of 10,578 = \$18,188.

<sup>20</sup> Audit Adjusting Entry 2 of \$13,960 + Audit Adjusting Entry 3 of 7,640 = \$21,600.

<sup>21</sup> Audit Adjusting Entry 1 of \$97 + Audit Adjusting Entry 6 of \$11,525 = \$11,622.

Wages – Employees by \$584. Commission Staff made these adjustments in order to reconcile the difference between the application and the Adjusted Trial Balance.

Billing Analysis Adjustment. Western Mason District proposed an increase of \$4,078 to its test-year revenues of \$776,080 for an adjusted test-year normalized revenues of \$780,158. In Western Mason District’s Response to Commission Staff’s Second Request for Information (Staff’s Second Request), it updated the amount of the billing adjustments. This updated information reduces the billing adjustment from \$28,032 to \$21,928. This change increases the amount of the adjustment to test-year general water revenues from \$4,078 to \$10,181, or an increase of \$6,103, adding the Audit Adjustment discussed above in Adjustment (A) of 18,188 and reducing the amount by \$1,250, for a pro forma amount of \$803,199. Commission Staff recommends that the Commission accept these adjustments as they meet the ratemaking criteria of being known and measurable.

(B) Forfeited Discounts. In Western Mason District’s Response to Staff’s Second Request,<sup>22</sup> Western Mason District stated that the Forfeited Discounts were misclassified as Other Water Revenues in its application.<sup>23</sup> Commission Staff reclassified \$15,054 from Other Water Revenues to Forfeited Discounts. This results in a reduction in Other Water Revenues of \$15,054 and an increase in Forfeited Discounts of \$15,054.

(C) Miscellaneous Service Revenues. Western Mason misreported its Reconnect Fees of \$1,150 and Returned Check Fees of \$100 in the General Water Service Revenues. In Western Mason District’s response to Staff’s Second Request,

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<sup>22</sup> Western Mason District’s Response to Staff’s Second Request, Item 5(a).

<sup>23</sup> Application, Attachment 4, SAO.

Western Mason District identified that the Turn-On Charge was mistakenly reported as Other Operating Revenue.<sup>24</sup> Commission Staff removed the Reconnect Fees and Returned Check Fees from the General Water Sales Revenue and the Turn-On Fees of \$175 from Other Water Revenues and reclassified these revenues as Miscellaneous Service Revenues for a test year total Miscellaneous Service Revenues of \$1,425.<sup>25</sup>

Additionally, Western Mason District requested to discontinue its Meter Reread Fee. Commission Staff recommends that the Commission accept these adjustments as they meet the ratemaking criteria of being known and measurable and approve the request to eliminate the Meter Reread Fee.

(D) Other Water Revenues. Western Mason District reported test year Other Water Revenues of \$21,293. In its response to Commission Staff's First Request Western Mason District provided that \$15,054 of this was the forfeited discounts<sup>26</sup> and was mistakenly reported as Other Water Revenues. Additionally, the Turn-On Fees of \$175 were reported as Other Water Revenues and should be reclassified to Miscellaneous Service Revenues.<sup>27</sup> Commission Staff has reduced test year Other Water Revenues by \$15,054 for the Forfeited Discounts and by \$175 for the Turn On Fees. As discussed in Adjustment (A), the Auditor noted an adjusting entry of \$9,435 in Other Operating Revenues.<sup>28</sup> The reclassification and adjusting entry results in a pro forma of amount of \$15,409. Commission Staff has made these adjustments to Other Operating

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<sup>24</sup> Western Mason District's Response to Staff's Second Request, Item 8.

<sup>25</sup> Western Mason District's Response to Staff's Second Request, Items 5 and 8.

<sup>26</sup> Western Mason District's Response to Staff's Second Request, Item 6.

<sup>27</sup> Western Mason District's Response to Staff's Second Request, Item 6.

<sup>28</sup> Audit Adjustments 2022, filed into the record September 12, 2023.

Revenues to be consistent with proper ratemaking accounting. Commission Staff recommends that the Commission accept these adjustments.

(E) Salaries and Wages – Employees. In its application, Western Mason District proposed an adjustment to increase test year Salaries and Wages - Employees by \$1,442 to account for increases in Wage rates subsequent to the test year.<sup>29</sup> Western Mason District provided its test-year and current employee list, hours worked, and employee wage rates.<sup>30</sup> Commission Staff reviewed the wage rates for the test year and current year and did not identify any changes. Commission Staff agrees with Western Mason District’s methodology but calculated a different amount. Commission Staff calculated the Salaries and Wages – Employees, utilizing the test-year hours worked, and the current wage rates; and determined a Salaries and Wages total of \$254,910. As discussed in the audit reconciliation adjustment above in Adjustment (A), additional adjustments were made due to the need for the application to reconcile with the adjusted trial balance. With this, the adjusted test year Salaries and Wages – Employees is \$275,068. Therefore, Commission Staff made an adjustment to decrease Salaries and Wages – Employees by \$20,158, which is \$21,600 less than proposed by Western Mason District, as shown below. Additionally, Commission Staff recommends Western Mason District hire an additional employee in the future; as this would lessen the overtime burden on positions one and two.

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<sup>29</sup> Application, Attachment 4, References, Adjustment B.

<sup>30</sup> Western Mason District’s Response to Staff’s First Request, Item 1d.

Test Year hours with Current Wages								
Total Hours	Test Year Normal Hours	Current Wages Rates	Pro Forma Normal Wages	Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages	
3,696	2,416	\$ 30.00	\$ 72,480.00	1,280	\$ 45.00	\$ 57,600	\$ 130,080	
3,299	2,418	25.00	60,450.00	881	37.50	33,038	93,488	
2,086	2,079	15.00	31,185.00	7	22.50	157.50	31,343	
Total Salaries & Wages - Employees			<u>\$ 164,115</u>	Total Salaries & Wages - Employees			<u>\$ 90,795</u>	254,910
Less: Adjusted Salaries and Wages - Employees								<u>(275,068)</u>
Total Salaries & Wages Adjustment								(20,158)
Less: Western Mason District's Proposed Adjustment								<u>(1,442)</u>
Commission Staff's Proposed Salaries & Wages Adjustment								<u>\$ (21,600)</u>

(F) Expenses Related to Meter Installations. In its application, Western Mason District proposed an adjustment to decrease test year Materials and Supplies by \$4,200<sup>31</sup> and Salaries and Wages – Employees by \$1,800<sup>32</sup> to account for tapping fees that were included as part of these expenses. During 2022, Western Mason District installed eight new water connections.<sup>33</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>34</sup> Commission Staff agrees with Western Mason District's proposed adjustment.

(G) Employee Pensions and Benefits - Insurance. In its application, Western Mason District proposed an adjustment to decrease Employee Pension and Benefits by \$26,899 to reflect Commission policy of limiting expenses for ratemaking purposes associated with providing employees medical insurance to match the Bureau of Labor

<sup>31</sup> Application, Attachment 4, References, Adjustment D.  
<sup>32</sup> Application, Attachment 4, References, Adjustment D.  
<sup>33</sup> Western Mason District's Response to Staff's First Request, Item 9a.  
<sup>34</sup> USoA, Accounting Instruction 19 and 33.

Statistics.<sup>35</sup> Western Mason District currently pays 100 percent for full time Employee's health insurance plan.<sup>36</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>37</sup>

Consistent with precedent,<sup>38</sup> Commission Staff agrees with Western Mason District's methodology but calculated a different amount. Commission Staff reduced Western Mason District's single health insurance premiums by 21 percent,<sup>39</sup> and family insurance premiums by 33 percent,<sup>40</sup> and dental insurance by 60 percent<sup>41</sup> as shown in the calculation below. Western Mason District provided the most recent copy of its health and dental insurance invoices.<sup>42</sup> Accordingly, utilizing the most recent invoice amounts,

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<sup>35</sup> Application, Attachment 4, Adjustment E.

<sup>36</sup> Application, Attachment 4, Adjustment E.

<sup>37</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).

<sup>38</sup> Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019), Order at 8–12.

<sup>39</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>40</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>41</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>42</sup> Western Mason District's Response to Staff's First Request , Item 1f, 1f\_Benefits\_Invoices.pdf.

Commission Staff recalculated the proposed adjustment and decreased Employee Pension and Benefits by \$23,480, which is \$3,419 less than proposed by Western Mason District, as shown below.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	1	\$ 992	21%	\$ (208)	\$ 784
Family Health Insurance	2	5,035	33%	(1,662)	3,373
Dental Insurance	3	250	60%	(150)	100
Life Insurance	3	67	0%	-	67
Total Pro Forma Monthly Premium		6,343		(2,020)	4,323
Times: 12 Months		12		12	12
Total Annual Pro Forma Premium		<u>\$ 76,119</u>		<u>\$ (24,240)</u>	51,876
Less: Test Year					<u>(75,356)</u>
Employee Pension and Benefits Adjustment					(23,480)
Less: Commission Staff Recommended Adjustment					<u>26,899</u>
Final Pro Forma Employee Pensions and Benefits adjustment					<u>\$ 3,419</u>

(H) Depreciation. In its application, Western Mason District proposed a decrease in Depreciation Expense by \$34,667 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>43</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 historically used the midpoint of the NARUC ranges to depreciate the utility plant. Upon examination, Commission Staff agrees with Western Mason District's methodology to adjust depreciation expense; however, Commission Staff calculated a depreciation expense of \$189,585. Commission Staff found no evidence to support depreciable lives

<sup>43</sup> Application, Attachment 4, Adjustment F.



that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff decreased Western Mason District's Depreciation Expense to \$189,585, a difference of \$40,661, which is \$5,994 less than proposed by Western Mason District, as shown below.

Categories	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
303 Land and Land Rights	N/A	\$ -	\$ -	\$ -
304 Structures and Improvements	35 - 40	15,468	1,031	16,499
311 Pumping Equipment	20	33,927	4,544	38,471
320 Water Treatment Equipment	20 - 35	621	(169)	452
330/342 Distribution Reserv. & Standpipe	30 - 60	29,018	(3,869)	25,149
331/343 Transmission and Distribution Mair	50 - 75	114,493	(41,105)	73,388
333/345 Services	30 - 50	377	(4)	373
334/346 Meters and Meter Installations	20	9,797	-	9,797
335 Hydrants	40 - 60	1,198	(240)	958
340 Office Furniture and Equipment	20 - 25	3,507	(1,385)	2,122
341 Transportation Equipment	7	16,455	(4,701)	11,753
343 Tools, Shop, and Garage Equipment	15 - 20	129	(18)	111
348 Other Tangible Plant	20	5,256	5,256	10,512
<b>Total</b>		<b>\$ 230,246</b>	<b>(40,661)</b>	<b>\$ 189,585</b>
Less: Western Mason District's Proposed Adjustment			<b>34,667</b>	
Commission Staff's Proposed adjustment			<b>\$ (5,994)</b>	

(I) Taxes Other Than Income. In its application, Western Mason District proposed an adjustment to decrease Taxes Other Than Income by \$261 to account for changes in payroll taxes due to the proposed change in wage rates.<sup>44</sup> However, as explained in Adjustment (F) above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$254,910. Therefore, Commission Staff calculated a pro forma Taxes Other Than Income of \$20,974; an increase of \$628, which is \$889 more than proposed by Western Mason District, as shown below.

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

	<u>Commission Staff's</u>
Salaries and Wages - Employees	\$ 254,910
Salaries and Wages - Officers	<u>14,400</u>
Total Pro Forma Salaries & Wages	269,310
Times: 7.65 Percent FICA Rate	<u>7.65%</u>
Total Pro Forma Payroll Taxes: ER FICA	20,602
Plus: Payroll Tax Expense	207
Plus: Payroll Tax Expense: KY UI	<u>165</u>
Total Taxes other than Income	20,974
Less: Adjusted Test Year Taxes other than Income	<u>(20,346)</u>
Payroll Tax Adjustment	628
Less: Western Mason District's Proposed Adjustment	<u>261</u>
Commission Staff's Proposed Adjustment	<u>\$ 889</u>

(J) Gains (Losses) from Disposition of Utility Property. During the test year, Western Mason reported \$5,048 from recycling or scrapping materials;<sup>45</sup> which was not a usual occurrence.<sup>46</sup> Therefore, it is not a routine transaction in the normal course of business and should be removed from the test year. Commission Staff made an adjustment to decrease Gains on the Disposition of Property of \$5,048 to remove the effects of this extraordinary transaction.

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<sup>45</sup> Western Mason District's Response to Staff's Second Request (filed Oct. 9, 2023), Item 4a.

<sup>46</sup> Western Mason District's Response to Staff's Second Request (filed Oct. 9, 2023), Item 4b.

## OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations.<sup>47</sup> 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;<sup>48</sup> (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

Revenue Requirement Determination- Debt Service Coverage			
	Western Mason Water District	Commission Staff	
Pro Forma Operating Expenses			
Plus: Avg. Annual Principal and Interest Payments	\$ 734,792	\$ 745,312	
Additional Working Capital	241,488	241,128	(1)
	48,298	48,226	(2)
 Total Revenues Requirement	 1,024,577	 \$ 1,034,666	
Less: Other Operating Revenue	21,293	(31,541)	
Non-operating Revenue	11,940	(11,940)	
Interest and Dividend Income	93	(93)	
 Revenue Required From Water Sales	 991,251	 991,092	
Revenue from Sales at Present Rates	780,158	(803,199)	
 Required Revenue Increase	 \$ 211,093	 \$ 187,893	
Percentage Increase	27.06%	23.39%	

<sup>47</sup> 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).

<sup>48</sup> 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).

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Western Mason District had seven outstanding United States Department of Agriculture, Rural Development (RD) waterworks revenue bond<sup>49</sup> and one outstanding Kentucky Infrastructure Authority (KIA) loan.<sup>50</sup> In its application, Western Mason District requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the three years following the test year, which is 2023 through 2027.<sup>51</sup> However, because the statutory date for a final Order to be issued in this proceeding is May 10, 2024, the 2023 payments will be recovered through Western Mason District's existing rates. Therefore, only Debt Service payments that will be made after the new rates are

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<sup>49</sup> Case 1989-00137, *The Application of Western Mason County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Jun. 16, 1989). Case 1997-00057, *The Application of the Western Mason County Water District, a Water District Organized Pursuant to Chapter 74 of the Kentucky Revised Statutes, In Mason County, Kentucky, For (1) a Certificate of Public Convenience and Necessity, Authorizing and Permitting Said Water District to Construct Water Distribution System Improvements, Consisting of Construction of Booster Pump Station, Appurtenances and 2.25 Miles of 10" Trans-Mission Line from City of Maysville System ) Along AA Highway to Highland Heights Tank and (2) Approval of the Proposed Plan of Financing of Said Project* (Ky. PSC Apr. 21, 1997). Case 2001-00267, *The Application of Western Mason County Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023* (KY. PSC Oct. 3, 2001). Case 2007-00318, *The Application of the Western Mason County Water District, a District Organized Pursuant to Chapter 74 of the Kentucky Revised Statutes, in Mason County, Kentucky, for (1) a Certificate of Public Convenience and Necessity, Authorizing and Permitting Said Western Mason County Water District to Construct Water Distribution System Improvements, Consisting of the Construction of Extensions, Additions and Improvements to the District's Water System; (2) the Approval of the Proposed Plan of Financing Said Improvements; and (3) an Increase in the Rates and Charges for Water Service Provided by Western Mason County Water District* (KY. PSC Aug. 3, 2007). Case 2009-00477, *Application of Western Mason County Water District for a Certificate of Public Convenience and Necessity to Construct Water Distribution System Improvements, Approval of the Proposed Plan of Financing and an Increase in Rates and Charges* (Ky. PSC Jan. 6, 2010). Case 2020-00198, *Electronic Application of the Western Mason County 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 Sep. 22, 2020).

<sup>50</sup> Case No. 2009-00477, *Application of Western Mason County Water District for a Certificate of Public Convenience and Necessity to Construct Water Distribution System Improvements, Approval of the Proposed Plan of Financing and an Increase in Rates and Charges* (Ky. PSC Jan. 6, 2010).

<sup>51</sup> Application, Exhibit 4, Debt Service Schedule Table.

placed into effect should be considered in determining Western Mason District’s Annual Interest and Fees expense. Commission Staff calculated the average annual principal and interest on a three-year average for the years 2024 through 2028. As shown below, Commission Staff calculated an Average Principal and Interest of \$241,128.

	2024		2025		2026		2027		2028		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
Series 1988 (91-02)	\$ 17,000	\$ 5,578	\$ 18,000	\$ 4,600	\$ 20,000	\$ 3,565	\$ 20,000	\$ 2,415	\$ 22,000	\$ 1,265	\$ 114,423
Series 1997 (91-05)	6,500	5,314	6,500	4,997	7,000	4,680	7,500	4,339	7,500	3,973	58,303
Series 2001 (91-06)	6,500	8,503	6,500	8,194	7,000	7,885	7,500	7,553	7,500	7,196	74,331
Series 2007A (91-08)	23,000	40,513	24,000	39,506	25,000	38,456	26,000	37,363	27,000	36,225	317,063
Series 2007B (91-010)	5,000	7,930	5,000	7,723	5,500	7,517	5,500	7,289	5,500	7,062	64,021
Series 2010 (91-11)	13,500	17,415	13,500	17,010	14,000	16,605	14,500	16,185	15,000	15,750	153,465
Series 2021 (91-13)	27,500	43,845	28,000	43,020	28,500	42,180	29,000	41,325	29,500	40,455	353,325
Loan #F209-14	11,981	2,248	12,222	1,977	12,468	1,700	12,718	1,418	12,974	1,005	70,711
Total	\$99,000	\$ 129,098	\$101,500	\$ 125,050	\$ 107,000	\$ 120,888	\$ 110,000	\$ 116,469	\$ 126,974	\$ 112,931	1,205,642
											5
											Average Annual Principal and Interest Payments
											<u>\$ 241,128</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, Western Mason District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its (RD) Waterworks Revenue Bonds and KIA loan at the time of its application.

Following the Commission’s historic practice, Commission Staff agrees with Western Mason District. Therefore, as calculated below and shown in the table above, \$48,226 is included in the revenue requirement.

Average Annual Principal and Interest	\$ 241,128
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	289,354
Less: Average Annual Principal and Interest Payments	<u>(241,128)</u>
Additional Working Capital	<u>\$ 48,226</u>

Signatures

/s/ Jeff Abshire for William 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. 2023-00182 DATED NOV 14 2023

**Nonrecurring Charges Adjustments**

Meter Reread Charge

	Western Mason Revised Charge	Staff Revised Charge
Western Mason District has requested this charge be eliminated from its Tariff.	\$0.00	\$0.00

Returned Check Charge

	Western Mason Revised Charge	Staff Revised Charge
Field Labor Overtime at \$0.00 for 0.0 hour	\$0.00	\$0.00
Supplies	2.00	2.00
Office Labor at \$22.50 for 1.00 hours	22.50	0.00
Transportation Expense	1.50	1.50
Bank Fee	7.00	7.00
Total Nonrecurring Charge Expense	\$33.00	\$10.50
Rounded Down to	\$33.00	\$10.50
Current Rate	\$25.00	

Reconnection Charge

	Western Mason Revised Charge	Staff Revised Charge
Materials, Pin Lock	\$2.83	\$2.83
Field Labor Overtime at \$55.00 for 2.0 hour	110.00	\$0.00
Supplies	2.00	2.00
Office Labor at \$17.00 for 1.00 hours	17.00	0.00
Transportation Expense	16.00	16.00
Total Nonrecurring Charge Expense	\$147.83	\$20.83
Rounded Down to	\$148.00	\$21.00
Current Rate	\$65.00	

Turn On Charge

	Western Mason Revised Charge	Staff Revised Charge
Field Labor \$25.00 for 1.0 hour	\$25.00	\$0.00
Supplies	2.00	2.00
Office Labor at \$15.00 for 1.0 hours	15.00	0.00
Transportation Expense	8.00	8.00
Total Nonrecurring Charge Expense	\$50.00	\$10.00
Rounded Down to	\$50.00	\$10.00
Current Rate	\$40.00	



APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00182 DATED NOV 14 2023

The following rates and charges are prescribed for the customers in the area served by Western Mason 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**

First	2 ,000 Gallons	\$55.65	Minimum Bill
Next	8 ,000 Gallons	0.00833	Per Gallon
Over	10 ,000 Gallons	0.00743	Per Gallon
<u>Bulk Sales</u>		.00876	Per Gallon

**NONRECURRING CHARGES**

Meter Reread Fee	\$0.00
Reconnect Fee	\$21.00
Returned Check Fee	\$10.50
Turn On Charge	\$10.00
5/8-Inch Meter Tap Fee	\$1,840.00

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