

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MAGOFFIN)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2023-00299
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On November 7, 2023,¹ Magoffin County Water District (Magoffin District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076, the Commission regulation governing alternative rate filings (ARF) for small utilities. In its initial filing, Magoffin District determined that a base rate revenue increase of \$580,057, or 41.23 percent, was necessary based on a year ended December 31, 2021 test year.² Magoffin District was notified that the test year was incorrect, and it resubmitted its filing using the correct test year ended December 31, 2022.³ Magoffin District determined that a base rate revenue increase of \$389,189, or 25.27 percent⁴, was necessary to achieve the revenue requirement. In response Commission Staff's Second Request for Information (Staff's Second Request), Magoffin

¹ Magoffin District tendered its application on September 8, 2023. By letters dated September 12, 2023, and October 30, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on November 7, 2023.

² Application (filed Sept. 8, 2023), at 13, Revenue Requirement table.

³ Magoffin District's Response to Filing Deficiencies (filed Oct. 25, 2023), Exhibits A through D.

⁴ Magoffin District's Response to Filing Deficiencies, Exhibits A through D.

District filed a corrected rate study.⁵ In the rate study, Magoffin District provided an additional revised revenue requirement calculation, and determined that a corrected base rate revenue increase of \$361,340, or 23.46 percent,⁶ was necessary to achieve the revenue requirement.

Magoffin District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2015-00022.⁷ Since that matter, Magoffin District has only adjusted its rates pursuant to purchased water adjustments. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated December 4, 2023, as amended by Order dated March 6, 2024. Magoffin District responded to three requests for information from Commission Staff.⁸ In response to Commission Staff's Third Request for Information (Staff's Third Request), Magoffin District acknowledged that it had not posted a notice to the public regarding this alternative rate adjustment application on its website.⁹ On March 25, 2024, the Commission found that Magoffin District had failed to comply with 807 KAR 5:076, Section 8(1)(b), and 807 KAR 5:076, Section 5(4)(d), and granted a deviation for both regulations.¹⁰ However, the Commission ordered Magoffin District to post notice on its

⁵ Magoffin District's Response to Staff's Second Request (filed Jan. 24, 2024), Item 1, 1_Rate_Study_Corrected.xlsx.

⁶ Magoffin District's Response to Staff's Second Request, Item 1, 1_Rate_Study_Corrected.xlsx, SAO Tab, Cells G50 and G52.

⁷ Case No. 2015-00022, *Application of Magoffin County Water District for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 15, 2015).

⁸ Magoffin District's Response to Staff's First Request; Magoffin District's Response to Staff's Second Request; Magoffin District's Response to Staff's Third Request.

⁹ Magoffin District's Response to Staff's Third Request, Item 3.

¹⁰ Order (Ky. PSC Mar. 25, 2024) at 4.

website,¹¹ and on March 27, 2024, Magoffin District filed proof it had complied with the Order.¹²

Commission Staff issued its report (Commission Staff's Report) on April 10, 2024, summarizing its recommendations regarding Magoffin District's requested rate adjustment.¹³ In the Commission Staff's Report, Commission Staff calculated that Magoffin District's adjusted test-year operations support an overall revenue requirement of \$1,876,389 and that a \$231,269 revenue increase, or 15.01 percent, to pro forma present rate revenues is necessary to generate the overall revenue requirement.¹⁴ In the absence of a cost-of-service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.¹⁵

On April 11, 2024, Magoffin District filed its response to Commission Staff's Report. Magoffin stated that it concurs with the findings presented in the Staff Report, except that it does not agree with Commission Staff's removal of certain labor expenses from nonrecurring charges.¹⁶ Magoffin District stated that it does not wish to contest this adjustment, and that its failure to object shall not be construed as a waiver of its right to

¹¹ Mar. 25, 2024 Order at 4.

¹² Magoffin District's Proof of Notice Filing (filed Mar. 27, 2024).

¹³ Commission Staff's Report on Magoffin County Water District (Commission Staff's Report) (Ky. PSC Apr. 10, 2024).

¹⁴ Commission Staff's Report at 23, Revenue Requirement Determination – Debt Service Coverage Table.

¹⁵ Commission Staff's Report, at 5.

¹⁶ Magoffin District's Response to Commission Staff's Report (filed April 11, 2024).

contest a similar finding in a future rate proceeding.¹⁷ Magoffin District stated that it waived its right to request an informal conference or hearing in this case.¹⁸

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."¹⁹ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Magoffin 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 3,387 residential customers and 55 commercial customers, who reside in Floyd and Magoffin counties, Kentucky.²⁰ Magoffin District purchases all of its water from city of Salyersville.²¹ Magoffin District's last base rate increase pursuant to the alternative

¹⁷ Magoffin District's Response to Commission Staff's Report.

¹⁸ Magoffin District's Response to Commission Staff's Report.

¹⁹ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

²⁰ *Annual Report of Magoffin District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

²¹ 2022 Annual Report at 54 and 57.

rate filing procedure was in Case No. 2015-00022.²² Since that matter, Magoffin District has only adjusted its rates pursuant to purchased water adjustments.

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Magoffin District reported a water loss of 19.6849 percent.²³ 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 2022 total annual cost of water loss to Magoffin District is \$133,921, while the annual cost of water loss in excess of 15 percent is \$31,872.²⁴

	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 616,253	\$ 64,067	\$ 680,320
Multiply by: Total Water Loss Percent	19.6849%	19.6849%	19.68%
Total Water Loss Expense	\$ 121,309	\$ 12,612	\$ 133,921
	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 616,253	\$ 64,067	\$ 680,320
Multiply by: Water Loss in Excess of 15 Percent	4.6849%	4.6849%	4.68%
Disallowed Water Loss Expense	\$ 28,871	\$ 3,001	\$ 31,872

²² Case No. 2015-00022, *Application of Magoffin County Water District for Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Oct. 15, 2015).

²³ 2022 Annual Report at 57.

²⁴ Commission Staff's Report at 3.

TEST PERIOD

The calendar year ended December 31, 2022, was used as the test year to determine the reasonableness of Magoffin District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.²⁵

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Magoffin District's pro forma income statement as follows:

	2022 Test Year	Pro Forma Adjustments	Commission Staff Report Pro Forma
Total Operating Revenues	\$ 1,541,468	\$ 82,722	\$ 1,624,190
Total Operating Expenses	1,886,321	(148,690)	1,737,631
Net Operating Income	(344,853)	231,412	(113,441)
Interest and Dividend Income	930	-	930
Nonutility Income	20,000	-	20,000
Total Operating Income	<u>\$ (323,923)</u>	<u>\$ 231,412</u>	<u>\$ (92,511)</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Magoffin District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission has no further modifications or adjustments. The following is the Commission Staff's complete pro forma.²⁶

²⁵ Magoffin District originally calculated the base rate revenue based on a test year ended December 31, 2021. See Application at 13, Revenue Requirement Table. Magoffin District was notified that the test year was incorrect, and it resubmitted its filing using the correct test year ended December 31, 2022. See Magoffin District's Response to Filing Deficiencies, Exhibits A through D.

²⁶ Commission Staff's Report at 8.

	2022 Test Year	Magoffin District Revised Adjustments	Commission Staff Proposed Adjustments	Total Proposed Adjustments	Commission Staff's Proposed Pro Forma
Operating Revenues					
Total Metered Water Sales	\$ 1,501,319	\$ 38,948	\$ (41,577)	\$ (2,629)	
			(31,585)	(31,585)	
			(4,812)	(4,812)	
			77,974	77,974	1,540,267
Total Metered Water Sales	1,501,319	38,948	-	38,948	1,540,267
Other Water Revenues					
Forfeited Discounts	-	-	31,585	31,585	31,585
Misc. Service Revenues	-	-	16,844	16,844	
			(11,390)	(11,390)	5,454
Other Water Revenues	40,149		(16,844)	(16,844)	
			41,577	41,577	
			5,307	5,307	
			(23,305)	(23,305)	46,884
Total Other Water Revenues	40,149	-	43,774	43,774	83,923
Total Operating Revenues	1,541,468	38,948	43,774	82,722	1,624,190
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	371,021	(7,800)	-	(7,800)	
		22,948	(38,624)	(15,676)	347,545
Salaries and Wages - Officers		7,800	(7,800)	-	-
Employee Pensions	139,554	2,636	(27,841)	(25,205)	
		(38,117)	20,654	(17,463)	96,886
Employee Benefits	18,861	1,125	10,899	12,024	30,885
Purchased Water	603,506		12,747	12,747	
			(28,871)	(28,871)	587,382
Purchased Power	64,067		(3,001)	(3,001)	61,066
Materials and Supplies	128,813			-	128,813
Contractual Services	5,400			-	5,400
Rental of Building/ Real Property	14,300			-	14,300
Transportation Expenses	34,286			-	34,286
Insurance - Other	29,950			-	29,950
Bad Debt	1,693			-	1,693
Miscellaneous Expense	73,007			-	73,007
Total Operation and Maintenance Expenses	1,484,458	(11,408)	(61,837)	(73,245)	1,411,213
Depreciation	325,898	(51,063)	(21,888)	(72,951)	252,947
Taxes Other Than Income	75,965	461	(2,955)	(2,494)	73,471
Utility Operating Expenses	1,886,321	(62,010)	(86,680)	(148,690)	1,737,631
Net Operating Income	(344,853)	100,958	130,454	231,412	(113,441)
Interest and Dividend Income	930	-			930
Nonutility Income	20,000	-			20,000
Income Available to Service Debt	\$ (323,923)	\$ 100,958	\$ 130,454	\$ 231,412	\$ (92,511)

PRO FORMA OPERATING STATEMENT

Reclassification of Non-Water Sales Revenues. In its application, Magoffin District reported \$1,501,319 in Metered Sales which included \$41,577 for Utility Tax billings,

\$31,585 for Late Fees, \$4,314 for a Field Supplies credit, and \$498 for Refunds²⁷ as shown in the chart below.

Water Revenues	\$ 1,423,345
Utility Tax	41,577
Late Charges	31,585
Field Supplies	4,314
Refund	498
Total	<u>\$ 1,501,319</u>

Commission Staff reclassified Utility Tax billings to Other Water Revenues and reclassified Late Fees to Forfeited Discounts.²⁸ Therefore, Commission Staff reduced Metered Water Sales by \$41,577 and \$31,585 and increased Forfeited Discounts by \$31,585 and increased Other Water Revenues by \$41,577.²⁹ Additionally, the field supplies credit and the miscellaneous refunds should not be included in the pro forma since they are not recurring events. Commission Staff reduced Metered Water Sales for the combined amount of \$4,812.³⁰ Commission Staff notes that the Utility Tax billings is a non-revenue item that is offset by corresponding disbursements that are recorded as Taxes Other Than Income.³¹ The billing amount is based on revenues but is not a component of the underlying rate.³²

²⁷ Magoffin District's Response to Staff's First Request, Item 1b, 1b_Adjusted_Trial_Balance_2022.xlsx, Cells O35 and O21.

²⁸ Commission Staff's Report at 8–9.

²⁹ Commission Staff's Report at 8–9.

³⁰ \$4,314 + \$498 = \$4,812.

³¹ Commission Staff's Report at 8–9.

³² Commission Staff's Report at 8–9.

The Commission finds that this adjustment is reasonable because an examination of Magoffin District's billing analysis, general ledger and responses to Commission Staff's requests for information was reviewed and completed by Commission Staff and a normalized revenue was based on the evidence provided.

Billing Analysis. In its application, Magoffin District proposed an adjustment to increase its test-year water sales revenues;³³ however, with the adjustments discussed above, the test-year revenues of \$1,423,345³⁴ were increased by \$116,922, which is \$77,974 more than the \$38,948 proposed by Magoffin District, to a normalized test-year revenue of \$1,540,267. The examination of Magoffin District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.³⁵

The Commission finds that Commission Staff's recommended adjustments are reasonable and Magoffin District's Metered Water Sales should be increased by \$116,922, as they are consistent with proper ratemaking accounting and is supported by the evidence in the record.

Reclassify Nonrecurring Charges. In the application and the revised Rate Study, Magoffin District reported \$40,149 for Other Water Revenues.³⁶ In response to Staff's First Request, Magoffin District stated that the nonrecurring charge revenues are

³³ Application, Schedule of Adjusted Operations, Adjustment A.

³⁴ Test Year Water Sales \$1,501,319 less \$31,585 less \$41,577 less \$4,314 less \$498 = \$1,423,345.

³⁵ Commission Staff's Report at 9–10.

³⁶ Application, revised exhibit D and Magoffin District's Response to Staff's Second Request, Item 1, 1_Rate_Study_Corrected.xlsx, SAO tab, Cell D10.

recorded as general water sales and are separated during the audit process.³⁷ Of the \$40,149 Other Water Revenues, Commission Staff identified that \$16,844 was attributable to Nonrecurring Charges.³⁸ Commission Staff reclassified this amount to the Miscellaneous Service Revenues.³⁹ Therefore, Commission Staff reduced Other Water Revenues by \$16,844 and increased Miscellaneous Service Revenues by \$16,844.⁴⁰

The Commission finds that this adjustment is reasonable and should be accepted because the adjustment is consistent with proper ratemaking accounting and is supported by the evidence on the record.

Miscellaneous Service Revenues. In response to Staff's First Request, Magoffin District provided the number of nonrecurring charge occurrences.⁴¹ Additionally, Magoffin District provided updated cost justification sheets for the Nonrecurring Charges and the Tap Fee.⁴² Commission Staff reviewed the responses, the cost justification sheets, and the general ledger.⁴³ Commission Staff followed the Commission's precedent in removing field labor and office/clerical labor costs.⁴⁴

³⁷ Magoffin District's Response to Staff's First Request, Item 10.

³⁸ Commission Staff's Report at 10.

³⁹ Commission Staff's Report at 10.

⁴⁰ Commission Staff's Report at 10–11.

⁴¹ Magoffin District's Response to Staff's First Request, Item 1b, 1b_Adjusted_Trial_Balance_2022.xlsx, IS Tab, Cell O9.

⁴² Magoffin District's Response to Staff's First Request, Item 10 through Item 12.

⁴³ Commission Staff's Report at 10–11.

⁴⁴ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

Commission Staff decreased Miscellaneous Service Revenues by \$11,390 by removing field labor and office/clerical labor from Nonrecurring Charges that are accomplished during normal office hours, as shown in Appendix A.⁴⁵ The Meter Test Charge has contracted labor, and as it is a contracted charge, Commission Staff did not remove this labor amount in the revised calculated Meter Test Charge.⁴⁶ As shown in the tables in Appendix A, the proposed adjustments made by Commission Staff result in a pro forma amount of \$5,454.⁴⁷

The Commission finds that these adjustments are reasonable because the evidence filed into the case record has been analyzed and evaluated by Commission Staff and is based on existing Commission precedent⁴⁸

Utility Tax Billings Adjustment. During the test year, Magoffin District recorded \$41,577 for Utility Tax billings⁴⁹ and \$46,884 for Gross Utility Tax expenses.⁵⁰ Since the collection of school taxes is a pass-through transaction, the revenues collected should match the expense recorded. Therefore, Commission Staff increased Other Water Revenues by \$5,307.⁵¹

⁴⁵ Commission Staff's Report at 10–11.

⁴⁶ Commission Staff's Report at 10–11.

⁴⁷ Commission Staff's Report at 10–11.

⁴⁸ Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076*, (Ky. PSC Nov. 17, 2023); Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024); Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Jan. 4, 2024).

⁴⁹ Magoffin District's Response to Staff's First Request, Item 1b, 1b_Adjusted_Trial_Balance_2022.xlsx, row 22, Utility Tax \$41,577.

⁵⁰ Magoffin District's Response to Staff's First Request, Item 1b, 1b_Adjusted_Trial_Balance_2022.xlsx, row 94, Gross Utility Tax \$46,884.

⁵¹ Gross Utility Tax \$46,884 – Utility Tax \$41,577 = \$5,307.

The Commission finds that this adjustment is reasonable and agrees that the revenues collected should match the expense recorded, since Magoffin District is functioning as a pass-through entity.

Removal of Nonrecurring Items from Other Water Revenues. Commission Staff reviewed the General Ledger for the test year and determined that the items below will not recur and should be removed from Other Water Revenues.⁵² The transactions range from insurance claim payments, various parkway project revenues, final invoices, discount refunds, sewer collection fees that are not a part of water revenues, and correcting entries to other accounts.⁵³ Therefore, Commission Staff reduced Other Water Revenues by \$23,305.⁵⁴

Commonwealth of KY	\$ 5,874
Engineering waterline project	4,545
Insurance income	226
Workmans comp ins.refund	1,031
Correction on payroll account	2,312
Sewer collection fee	5,003
Double counted field supplies income/ insurance claim	4,314
Total	<u>\$ 23,305</u>

The Commission finds Commission Staff's adjustment reasonable and, therefore, finds that Magoffin District's Other Water Revenues should be reduced by \$23,305. Non-reoccurring transactions do not represent a standard operating year; and should be removed from the Revenue Requirement.

⁵² Commission Staff's Report at 11–12.

⁵³ Commission Staff's Report at 11–12.

⁵⁴ Commission Staff's Report at 11–12.

Salaries and Wages – Employees – Officer Salaries Reclassification. In its application, Magoffin District proposed an adjustment to increase Salaries and Wages – Officers by \$7,800 and decrease Salaries and Wages – Employees by \$7,800.⁵⁵ The adjustment is to reflect the reclassification of commissioners’ salaries that were inadvertently included in Salaries and Wages – Employees in Magoffin District’s 2022 Annual Report.⁵⁶ Commission Staff reviewed Magoffin District’s 2022 Annual Report and Magoffin District’s 2022 Payroll Summary and confirmed employees’ and commissioners’ salaries were included in the Miscellaneous Expense instead of Salaries and Wages – Employees or Salaries and Wages – Officers.⁵⁷

Magoffin District’s Board of Commissioners consists of five members. The chairman is paid \$200 monthly, the treasurer is paid \$150, and the other three commissioners are each paid \$100 monthly.⁵⁸ Magoffin District provided the names of the current commissioners and commissioners’ salaries.⁵⁹ However, Magoffin District was unable to locate the fiscal court minutes that authorized any compensation for board members. Therefore, there is no evidence on record authorizing officers’ compensation. Commission Staff decreased Salaries and Wages – Employees’ expense by \$7,800.⁶⁰

The Commission finds that Commission Staff’s recommended adjustment is reasonable and Magoffin District’s Salaries and Wages – Employees should be

⁵⁵ Application, Schedule of Adjusted Operations, Adjustment B.

⁵⁶ Application, Schedule of Adjusted Operations, Adjustment B.

⁵⁷ Magoffin District’s Response to Staff’s First Request, Item 1e, 1e_Payroll.pdf.

⁵⁸ Magoffin District’s Response to Staff’s First Request, Item 1h, 1h_Commissioners.pdf.

⁵⁹ Magoffin District’s Response to Staff’s First Request, Item 1h, 1h_Commissioners.pdf.

⁶⁰ Commission Staff’s Report at 12–13.

decreased by \$7,800 based on the lack of evidence in the record for fiscal court approval of the commissioners' salaries. The Commission further recommends Magoffin District request Fiscal Court approval for the officers' salaries at the next Fiscal Court meeting.

Salaries and Wages – Employees. In its application, Magoffin District proposed an adjustment to increase test-year Salaries and Wages - Employees by \$22,948 to account for increases in wage rates and changes in personnel subsequent to the test year.⁶¹ Magoffin District provided its test-year and current employee list, hours worked, employee wage rates,⁶² and current staff levels,⁶³ as well as an explanation of changes in personnel during and subsequent to the test year.⁶⁴ Magoffin District confirmed that there are currently no vacant field-laborer positions;⁶⁵ however, several experienced full-time employees are no longer employed and have been replaced with new personnel, and the secretary switched from full-time hourly to part-time salary.⁶⁶

Commission Staff agreed with Magoffin District's methodology but calculated a different amount.⁶⁷ Commission Staff calculated the normalized salaries, using the currently-employed employees, the test-year hours worked, and the current wage rates.⁶⁸ For full-time employees hired subsequent to the test year, Commission Staff normalized

⁶¹ Magoffin District's Response to Staff's Second Request, Item 1, 1_Rate_Study_Corrected.xlsx.

⁶² Magoffin District's Response to Staff's First Request, Item 1e, 1e_Payroll.pdf.

⁶³ Magoffin District's Response to Staff's Third Request, Item 5c.

⁶⁴ Magoffin District's Response to Staff's Third Request, Item 5a.

⁶⁵ Magoffin District's Response to Staff's Third Request, Item 5b.

⁶⁶ Magoffin District's Response to Staff's First Request, Item 1e, 1e_Payroll.pdf.

⁶⁷ Commission Staff's Report at 13–14.

⁶⁸ Magoffin District's Response to Staff's First Request, Item 1f.

the hours worked to 2,080.⁶⁹ Commission Staff determined a total Salaries and Wages - Employees of \$347,545.⁷⁰ Therefore, Commission Staff made an adjustment to decrease Salaries and Wages – Employees by \$15,676, which is \$38,624 less than the increase of \$22,948 proposed by Magoffin District, as shown in the following table.⁷¹

Employee Position	Test Year hours with Current Wages				Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages
	Total Hours	Test Year Normal Hours	Current Wage Rates	Pro Forma Normal Wages				
Field Laborer	2,283	2,080	\$ 14.16	\$ 29,453	203	\$ 21.24	\$ 4,301	\$ 33,754
Field Laborer	2,246	2,080	15.41	32,053	166	23.12	3,829	35,882
Secretary (Part Time)	1,040	1,040	Salary	21,000	-	-	-	21,000
Clerk	2,080	2,080	16.29	33,883	-	24.44	-	33,883
Clerk	2,080	2,080	16.67	34,674	-	25.01	-	34,674
General Manager	2,341	2,080	30.03	62,470	261	45.05	11,773	74,243
Field Superintendent	2,229	2,080	25.61	53,266	149	38.41	5,723	58,989
Field Laborer (New Employee)	2,080	2,080	13.25	27,560	-	19.88	-	27,560
Field Laborer (New Employee)	2,080	2,080	13.25	27,560	-	19.88	-	27,560
Total Salaries & Wages - Employees	16,378	17,680	1,302	\$ 294,358	778		\$ 19,903	347,545
Less: Corrected Salaries and Wages - Employees								(363,221)
Total Salaries & Wages - Employees Adjustment								(15,676)
Less: Magoffin District's Proposed Adjustment								(22,948)
Commission Staff's Proposed Salaries & Wages - Employees Adjustment								\$ (38,624)

The Commission finds that Commission Staff's recommended adjustment is reasonable and Magoffin District's Salaries and Wages – Employees should be decreased by \$15,676, because the recalculated adjustment is a known and measurable change.

Employee Pensions - County Employee Retirement System (CERS). Magoffin District proposed an adjustment to increase Employee Pensions and Benefits expense by \$2,636 to reflect an increase in Employee Salaries.⁷² Magoffin District participates in the CERS, which is administered by the Kentucky Public Pension Authority (KPPA).

⁶⁹ Commission Staff's Report at 13–14.

⁷⁰ Commission Staff's Report at 13–14.

⁷¹ Commission Staff's Report at 13–14.

⁷² Magoffin District's Response to Staff's Second Request, Item 1, 1_Rate_Study_Corrected.xlsx, SAO Tab, Cell E18.

Commission Staff agrees with Magoffin District methodology.⁷³ As discussed above, Commission Staff calculated a Salaries and Wages – Employees’ expense of \$347,545, of which \$326,545 are for full-time employees who qualify for retirement benefits.⁷⁴ In addition, Magoffin District used a contribution rate of 26.95 percent,⁷⁵ while the KPPA fiscal year 2024 contribution rate is 23.34 percent.⁷⁶ Using the adjusted Salaries and Wages – Employees, previously calculated, of \$326,545 and the 2024 contribution rate, Commission Staff calculated a CERS contribution amount of \$76,232, which is a decrease of \$25,205 from Magoffin District’s test-year pension contribution of \$101,437,⁷⁷ and is \$27,841 less than proposed by Magoffin District’s proposed increase of \$2,636, as shown in the following table.⁷⁸

Description	Amount
Wages applicable to CERS payments	\$ 326,545
Times: Percent Pension Contribution	<u>23.345%</u>
Total Pension Contribution	76,232
Less: Test Year Pension Contribution	<u>(101,437)</u>
Pension & Benefits Adjustment	(25,205)
Less: Magoffin District Proposed Adjustment	<u>(2,636)</u>
Commission Staff Proposed Adjustment	<u><u>\$ (27,841)</u></u>

⁷³ Commission Staff’s Report at 14.

⁷⁴ Commission Staff’s Report at 15.

⁷⁵ Magoffin District’s Response to Staff’s Second Request, Item 1, 1_Rate_Study_Corrected.xlsx, Wages Tab, Cell G33.

⁷⁶ KPPA, GASB Contribution Rates (<https://www.kyret.ky.gov/Employers/GASB/Pages/Contribution-Rates.aspx>).

⁷⁷ Magoffin District’s Response to Staff’s Second Request, Item 2.

⁷⁸ Commission Staff’s Report at 14–15.

The Commission finds Commission Staff's recommended adjustment is reasonable and Magoffin District's Employee Pensions and Benefits should be decreased by \$25,205, because the adjustment, as modified by Commission Staff, is a known and measurable change.

Employee Pensions – Governmental Accounting Standards Board (GASB) 68 and 75. Magoffin District proposed an adjustment to decrease Employee Pensions and Employee Benefits by \$38,117⁷⁹ to reflect the current Commission precedent on amounts included in pension expense for the net pension liability adjustment typically made pursuant to GASB 68 and GASB 75.⁸⁰ Commission Staff determined a decrease was needed to the Employee Pension expense to reflect the GASB 68 and 75 adjustment for expense amounts recorded in excess of contributions.⁸¹ Commission Staff reviewed the 2021⁸² and 2022⁸³ audited financial statements for Magoffin District and determined the net liability amounts for 2021 and 2022 were \$1,183,694 and \$1,201,157, respectively.⁸⁴ Commission Staff reduced Employee Pension expense by \$20,654 to reflect the correct balance net of Magoffin District's proposed adjustment, as shown in the following table.⁸⁵

⁷⁹ Magoffin District's Response to Staff's Second Request, Item 1, 1_Rate_Study_Corrected.xlsx, SAO Tab, Cell E19.

⁸⁰ Application at 10, References, Adjustment E.

⁸¹ Commission Staff's Report at 15–16.

⁸² *Audit Report of Magoffin District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Audit Report) at 9, 15, 19, and 21.

⁸³ *Audit Report of Magoffin District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Audit Report) at 9, 15, 19, and 21.

⁸⁴ Commission Staff's Report at 15–16.

⁸⁵ Commission Staff's Report at 15–16.

Description	2021	2022
Deferred Outflow Pension	\$ 198,412	\$ 190,124
Deferred Outflow OPEB	171,321	147,782
Net Pension Liability	(918,623)	(960,880)
Net OPEB Liability	(275,757)	(262,280)
Deferred Inflow Pension	(166,990)	(164,779)
Prior Period adjustment	(51,845)	
Deferred Inflow OPEB	(140,212)	(151,124)
Totals	<u>\$ (1,183,694)</u>	<u>(1,201,157)</u>
Difference between 2021 and 2022		(17,463)
Less: Magoffin District proposed adjustment		<u>38,117</u>
Commission Staff Proposed Adjustment		<u>\$ 20,654</u>

The Commission finds the adjustment reasonable, and Magoffin District's Employee Pensions should be decreased by \$17,463, to reflect the correct treatment of the Pension liability expense according to GASB 68 and 75 consistent with prior precedent.⁸⁶

Employee Benefits – Health Insurance. During the test year, Magoffin District provided medical insurance to two full-time employees.⁸⁷ The two employees who receive medical insurance through Magoffin District are provided benefits through an employee only policy.⁸⁸ Magoffin District stated that it pays 85 percent of the cost and the employee pays 15 percent.⁸⁹ However, as shown in the following table, one employee

⁸⁶ Case No. 2016-00163, *Alternative Rate Adjustment Filing Marion County Water District*, (Ky. PSC Nov. 10, 2016), Order at 3–7. Case 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076* (Ky. PSC Sep. 13, 2022), Order at 11–12.

⁸⁷ Magoffin District's Response to Staff's Third Request, Item 6.

⁸⁸ Magoffin District's Response to Staff's Third Request, Item 6.

⁸⁹ Magoffin District's update to Response to Staff's First Request (filed Feb. 20, 2024), Item 1g, Benefits.

pays 9.12 percent of the insurance, while the other contributes 12.45 percent, and Magoffin District pays the remaining 90.88 percent and 87.55 percent, respectively.⁹⁰ In addition, Magoffin District offers a stipend of \$301 per month to each full-time employee having worked at least ten years with Magoffin District who does not accept insurance coverage.⁹¹ There are four employees who have worked for Magoffin District for at least ten years who currently do not accept medical insurance and receive the stipend instead.⁹² Magoffin District's employee contributions to health insurance premiums are significantly lower than the average employee contributions for private industrial workers⁹³ of 21 percent for single coverage, based on the Bureau of Labor Statistics (BLS) averages.⁹⁴ In its application, Magoffin District proposed an adjustment to increase employee benefits by \$1,125 to account for increases to employee health insurance premiums subsequent to the test period.⁹⁵

⁹⁰ Magoffin District's Response to Staff's Second Request, Item 4, 4_Health_Insurance_Premium_Increase.pdf.

⁹¹ Magoffin District's Update to Previous Response to Staff's First Request (filed Feb. 20, 2024), 1g Benefits.

⁹² Magoffin District's Update to Previous Response to Staff's First Request, 1g Benefits.

⁹³ Case No. 2021-00161, *Electronic Application of Northern Kentucky Water District for an Adjustment of Rates; Issuance of Bonds; Financing; and Tariff Revisions* (Ky. PSC Feb. 8, 2023), final Order at 7.

⁹⁴ Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁹⁵ Application, Schedule of Adjusted Operations, Adjustment F.

Number of Employees Covered	Plan Type	Total Health Insurance Premium	Total Insurance Premium	Total Employee Contribution	Average Employee Contribution Percentage	Employer Contribution Percentage
2	EMP	\$ 1,011	\$ 1,011	\$ 109	10.78%	89.22%

Consistent with Commission precedent,⁹⁶ Commission Staff reduced Magoffin District’s single health insurance premium cost by 21 percent,⁹⁷ as shown in the calculation below.⁹⁸ Magoffin District provided the most recent copy of its insurance invoices accounting for the increase to insurance premiums proposed,⁹⁹ and the test-year amount reported for insurance premiums.¹⁰⁰ Accordingly, utilizing the most recent invoice amounts, Commission Staff recalculated the proposed adjustment and increased Employee Benefits by \$12,024, which is \$10,899 more than Magoffin District proposed.¹⁰¹

⁹⁶ 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.

⁹⁷ Bureau of Labor Statistics, *Healthcare Benefits, March 2023, Table 3, private industry workers.* (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁹⁸ Commission Staff’s Report at 18–19.

⁹⁹ Magoffin District’s response to Staff’s First Request, Item 3, *3_Benefits_Invoice.pdf*.

¹⁰⁰ Magoffin District’s Response to Staff’s First Request, Item 1b, *1b_Adjusted_Trial_Balance_2022.xlsx*, Anthem health insurance \$12,012.

¹⁰¹ Commission Staff’s Report at 18–19.

Type of Premium	Number of Employees	Employer Contributions	Average BLS Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	2	\$ 1,011	21%	\$ (212)	\$ 799
Insurance Stipend	4	1,204	0%	-	1,204
Total Pro Forma Monthly Premium	6	1,011		(212)	2,003
Times: 12 Months		12		12	12
Total Annual Pro Forma Premium		<u>\$ 12,126</u>		<u>\$ (2,544)</u>	24,036
Less: Test Year Insurance					(12,012)
Employee Benefits Adjustment					12,024
Less: Commission Staff Recommended Adjustment					(1,125)
Final Pro Forma Employee Benefits Adjustment					<u>\$ 10,899</u>

The Commission finds that Commission Staff's recommended adjustments are reasonable and Magoffin District's Employee Pensions and Benefits – Insurance should be increased by \$12,024 because it is consistent with the precedent established in previous cases regarding the evaluation of employees' total compensation packages for market and geographic competitiveness that ensure the development of a fair, just and reasonable rate.¹⁰²

Purchased Water. In its test year, Magoffin District reported a Purchased Water expense of \$603,506.¹⁰³ Magoffin District provided the total number of gallons¹⁰⁴ and the current purchase rate¹⁰⁵ for water purchased during the test year. In order to normalize the purchased water cost, Commission Staff calculated a revised pro forma Purchased Water expense using the test-year gallons purchased and the current rates.¹⁰⁶ This

¹⁰² 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.

¹⁰³ Magoffin District's Response to Staff's Second Request, Item 1, 1_Rate_Study_Corrected.xlsx.

¹⁰⁴ Magoffin District's Response to Staff's First Request, Item 4, 4_Water_Purchases.pdf.

¹⁰⁵ Magoffin District's Response to Staff's First Request, Item 5, 5_Wholesale_Tariff.pdf.

¹⁰⁶ Commission Staff's Report at 19; Magoffin District's Response to Staff's First Request, Item 5, 5_Wholesale_Tariff.pdf.

results in a Purchased Water expense of \$616,253.¹⁰⁷ Therefore, Commission Staff increased Purchased Water expense by \$12,747 as shown in the following table.¹⁰⁸

Salyersville Water Works			
Period	Gallons Purchased	Dollars per Gallon	Total
Total Purchased Water Expense	213,976,600	\$0.00288	\$616,253
Less: Test Year Purchased Water			(603,506)
Purchased Water Adjustment			<u>\$ 12,747</u>

The Commission finds that Commission Staff’s adjustment is reasonable and Magoffin District’s Purchased Water expense should be increased by \$12,747, since Commission Staff’s calculation of Purchased Water Expense is based upon test year gallons usage and the current rates.

Water Loss in Excess of 15 Percent. During the test year, Magoffin District reported water loss of 19.6849 percent.¹⁰⁹ As previously mentioned, Commission regulations prohibit the recovery of expenses for water loss in excess of 15 percent; this results in a net decrease to Purchased Water expense of \$28,871 and Purchased Power expense of \$3,001 as shown in following table.

	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 616,253	\$ 64,067	\$ 680,320
Multiply by: Water Loss in Excess of 15 Percent	4.68%	4.68%	4.68%
Excess Cost	<u>\$ 28,871</u>	<u>\$ 3,001</u>	<u>\$ 31,872</u>

¹⁰⁷ Commission Staff’s Report at 19–20.

¹⁰⁸ Commission Staff’s Report at 19–20.

¹⁰⁹ 2022 Annual Report at 57.

The Commission finds Commission Staff's recommended adjustment is reasonable and Magoffin District's Purchased Water expense should be reduced by \$28,872 and Purchased Power should be reduced by \$3,001, because Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes.

Depreciation. Magoffin District proposed a decrease in depreciation expense by \$51,063 to adjust the service lives of multiple assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).¹¹⁰ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979.¹¹¹ 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.¹¹² Upon examination, Commission Staff agrees with Magoffin District's methodology to adjust depreciation expense; however, Commission Staff calculated a Depreciation expense of \$252,947.¹¹³ Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of

¹¹⁰ Application, Attachment 4, Adjustment L.

¹¹¹ Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024); Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 22, 2023); Case No. 2022-00436, *Electronic Application of Judy Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 4, 2023).

¹¹² Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024); Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 22, 2023); Case No. 2022-00436, *Electronic Application of Judy Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 4, 2023).

¹¹³ Commission Staff's Report at 20–21.

the NARUC ranges.¹¹⁴ Therefore, Commission Staff decreased Magoffin District's Depreciation expense by an additional \$21,888 for a total reduction of \$72,951 to \$252,947 as shown in the following table.¹¹⁵

Categories	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Land and Land Rights	N/A	\$ -	\$ -	\$ -
Structures and Improvements	35 - 40	4,120	1,373	5,493
Pumping Equipment	20	17,948	(8,974)	8,974
Transmission and Distribution Mains	50 - 75	276,310	(58,737)	217,573
Office Furniture and Equipment	20 - 25	3,525	(1,959)	1,566
Transportation Equipment	7	16,291	(4,654)	11,637
Communications Equipment	10	7,704	-	7,704
Total		<u>\$ 325,898</u>	<u>(72,951)</u>	<u>\$ 252,947</u>
Less: Magoffin District's Proposed Adjustment			51,063	
Commission Staff's Proposed Adjustment			<u>\$ (21,888)</u>	

The Commission finds Commission Staff's recommended adjustment is reasonable and Magoffin District's depreciation expense is decreased by \$72,951, in order to align Magoffin District's capital assets' useful lives with the NARUC recommended useful lives consistent with prior precedent.¹¹⁶

Taxes Other Than Income – FICA. Magoffin District proposed an adjustment to increase Taxes Other Than Income by \$461 to account for an increase in payroll taxes due to the proposed increase in Salaries and Wages Expense.¹¹⁷ However, as explained

¹¹⁴ Commission Staff's Report at 20–21.

¹¹⁵ Commission Staff's Report at 20–21.

¹¹⁶ Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024); Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 22, 2023); Case No. 2022-00436, *Electronic Application of Judy Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 4, 2023).

¹¹⁷ Magoffin District's Response to Staff's Second Request, Item 1, 1_Rate_Study_Corrected.xlsx, Adjustment C.

in Adjustments (B) and (C) above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$347,545 and Salaries and Wages – Officers of zero.¹¹⁸ Therefore, Commission Staff calculated a decrease to Taxes Other Than Income of \$2,494, which is \$2,955 less than proposed by Magoffin District, as shown in the following table.¹¹⁹

Description	Amount
Salaries and Wages - Employees	\$ 347,545
Salaries and Wages - Officers	-
Total Pro Forma Salaries	347,545
Times: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	26,587
Plus: Gross Utility Tax	46,884
Total Taxes Other Than Income	73,471
Less: Test Year Taxes other than Income ()	(75,965)
Total Taxes Other Than Income Adjustment	(2,494)
Less: Magoffin District's Proposed Adjustment ()	(461)
Commission Staff's Proposed Adjustment	<u>\$ (2,955)</u>

The Commission finds that Commission Staff's recommended adjustments are reasonable and Magoffin District's Taxes other than Income should be decreased by \$2,494 because the change is a direct result of changes to Salaries and Wages – Employees.

¹¹⁸ Commission Staff's Report at 22.

¹¹⁹ Commission Staff's Report at 22.

	Commission Staff Report Pro Forma	Commission Approved Adjustments	Commission Approved Pro Forma
Total Operating Revenues	\$1,624,190	\$ -	\$1,624,190
Utility Operating Expenses	1,737,631	-	1,737,631
Utility Operating Income	(113,441)	-	(113,441)
Interest and Dividend Income	930	-	930
Nonutility Income	20,000	-	20,000
Income Available for Debt Service	\$ (92,511)	\$ -	\$ (92,511)

OVERALL REVENUE REQUIREMENT AND
REQUIRED REVENUE INCREASE

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations.¹²⁰ 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;¹²¹ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

¹²⁰ 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).

¹²¹ 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).

	Commission Staff Proposed	Commission Approved
Pro Forma Operating Expenses	\$ 1,737,631	\$ 1,737,631
Plus: Avg. Annual Principal and Interest Payments	115,631	115,631
Additional Working Capital	23,126	23,126
Total Revenues Requirement	1,876,389	1,876,389
Less: Other Operating Revenue ()	(83,923)	(83,923)
Nonutility Income ()	(20,000)	(20,000)
Interest and Dividend Income ()	(930)	(930)
Revenue Required From Water Sales	1,771,536	1,771,536
Less: Revenue from Sales at Present Rates ()	(1,540,267)	(1,540,267)
Required Revenue Increase	\$ 231,269	\$ 231,269
Percentage Increase	15.01%	15.01%

Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Magoffin District had one outstanding Kentucky Rural Water Finance Corporation (KRWFC) bond.¹²² In its application, Magoffin 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 five years following the test year, which is 2023 through 2027.¹²³ However, because the statutory date for a final Order to be issued in this proceeding is September 7, 2024, the 2023 debt service payments will be recovered through Magoffin District's existing rates. Therefore, only the debt service payments that will be made after the new rates are placed into effect should be considered in determining Magoffin District's Annual Principal and Interest Expense. Commission

¹²² Case No. 2014-00444, *Application of Magoffin County Water District to Issue Securities in the Approximate Principal Amount of \$1,685, 000 for the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Aug. 6, 2010), Order at 2, ordering paragraph 3.

¹²³ Magoffin District's Response to Filing Deficiencies (filed Oct. 29, 2023), Exhibits_A_through_D.pdf, Revenue Requirements Calculation, Table B, Debt Service Schedule.

Staff calculated the average annual principal and interest on a five-year average for the years 2024 through 2028.¹²⁴ As shown below, Commission Staff calculated an Average Principal and Interest of \$115,631.¹²⁵ The Commission agrees with Commission Staff's recommendation since Magoffin District provided the amortization schedule for its existing debt.¹²⁶

Debt Service Schedule			
Series 1988 (91-02)			
Year	Principal	Interest	Total
2024	\$ 80,000	\$ 36,994	\$ 116,994
2025	80,000	34,394	114,394
2026	85,000	31,713	116,713
2027	85,000	28,950	113,950
2028	90,000	26,106	116,106
Total	<u>\$ 420,000</u>	<u>\$ 158,156</u>	578,156
Divide by: 5 years			5
Average Annual Principal and Interest Payments			<u>\$ 115,631</u>

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, Magoffin District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its KRWFC Bond at the time of its application for a total of \$23,063.¹²⁷

¹²⁴ Commission Staff's Report at 24–25.

¹²⁵ Commission Staff's Report at 24–25.

¹²⁶ Application, Exhibit A, Debt Service Schedule.

¹²⁷ Magoffin District's Response to Filing Deficiencies, Exhibits_A_through_D.pdf, at 4, Revenue Requirements Calculation.

Following recent Commission precedent,¹²⁸ the Commission agrees with Magoffin District’s methodology. However, when the change in the Average Annual Principal and Interest payment, as described above, is taken into account, \$23,126 is included in the Revenue Requirement, to account for the Additional Working Capital, as shown in the following table.

Average Annual Principal and Interest	\$ 115,631
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	<u>138,758</u>
Less: Average Annual Principal and Interest Payments	(115,631)
Additional Working Capital	<u><u>\$ 23,126</u></u>

When the Commission reviewed Commission Staff’s Report, the Commission noticed that Commission Staff made an error in the Additional Working Capital section. Commission Staff’s Report says that Commission Staff determined an Additional Working Capital of \$23,063.¹²⁹ The \$23,063 is an error since it is Magoffin District’s initial proposed amount, instead of the updated calculation made by Commission Staff, as shown in the Revenue Requirement calculation. Therefore, the Commission disagrees with Commission Staff’s recommendation of including \$23,063, and instead the Commission included \$23,126, as calculated above. In Commission Staff’s Report’s Revenue

¹²⁸ Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076*, (Ky. PSC Nov. 17, 2023); Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024); Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).

¹²⁹ Commission Staff’s Report at 25–26.

Requirement calculation, Commission Staff used the correct \$23,126,¹³⁰ therefore, there is no impact on the Revenue Requirement from the Commission including \$23,126.

RATE DESIGN

Monthly Water Service Rates: In its application, Magoffin District proposed to allocate its increase across the board.¹³¹ Commission Staff agreed with this allocation method and used it to allocate its recommended \$231,269 increase.¹³² The rates, as calculated by Commission Staff, which are set forth in Appendix B to this report, are based upon the total revenue requirement, of \$1,876,389, and will produce sufficient revenues from water sales to recover the \$1,771,536 Revenue Required from Rates.¹³³ The rates will increase an average residential customer's monthly water bill from \$36.11 to \$41.53, an increase of \$5.42, or approximately 15.01 percent.¹³⁴

Nonrecurring Charges. Commission Staff has reviewed Magoffin 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. Commission Staff reviewed the cost justification information provided by Magoffin District and adjusted these charges by removing Field Labor Costs of approximately \$20 per hour and Office/Clerical Labor Costs of

¹³⁰ Commission Staff's Report at 23.

¹³¹ Magoffin District's Response to filing deficiencies, Exhibits_A_through_D.pdf, Revenue Requirement table.

¹³² Commission Staff's Report at 5-6.

¹³³ Commission Staff's Report at 5-6.

¹³⁴ The average residential customer uses approximately 4,000 gallons per month. See Application, Attachment 1.

approximately \$15 per hour from those charges which occur during normal business hours.¹³⁵ In addition to the charges shown in the table below, Magoffin District has two additional charges in its tariff. The Late Fee of 10 percent and the Meter Relocation Charge at Actual Cost are not being revised and therefore excluded from the calculation of these revised rates. The table that shows the calculations can be found in Appendix A of this Order.

Magoffin District provided a revised cost justification for its 5/8- x 3/4-Inch Meter Tap Fee.¹³⁶ The cost justification for this charge added up to \$1,306, however, Magoffin District proposed that the charge be \$1,200.¹³⁷ Commission Staff, in the Commission Staff's Report, recommended that the Commission find that the Magoffin District's adjustment is reasonable and the Tap Fee of \$1,280 should be accepted and approved.¹³⁸ The Commission notes that in reviewing the Commission Staff's Report, Commission Staff made an error in that \$1,280 was not the charge that was proposed by Magoffin District or calculated by Commission Staff. Therefore, after careful review of the evidence, the Commission finds that the Tap Fee charge should be Magoffin Districts requested rate of \$1,200¹³⁹ rather than Commission Staff's recommendation of \$1,280.¹⁴⁰

¹³⁵ Commission Staff's Report at 6; Magoffin District's Response to Staff's First Request, Item 10.

¹³⁶ Magoffin District's Response to Staff's First Request, Item 11, 11_Nonrecurring_Charges_Justification.pdf.

¹³⁷ Magoffin District's Response to Staff's First Request, Item 12, 12_Tap_Fee_Justification.pdf.

¹³⁸ Commission Staff's Report at 7.

¹³⁹ Magoffin District's Response to Staff's First Request, Item 12, 12_Tap_Fee_Justification.pdf.

¹⁴⁰ Commission Staff's Report at 7.

The Commission finds that these adjustments are reasonable because the evidence filed into the case record has been carefully analyzed and evaluated by Commission Staff and is consistent with existing precedent.¹⁴¹

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report are supported by the evidence of record and are reasonable. By applying the DSC method to Magoffin's pro forma operations results in an Overall Revenue Requirement of \$1,876,389 and that a \$231,269 revenue increase, or 15.01 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

Magoffin District responded to a Commission Staff Request stated that the eighth day of the month would be the most appropriate date for the rates to be effective. Therefore, the rates in this Order will become effective on June 8, 2024. The Commission finds this request to be reasonable and should be accepted.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Magoffin District are denied.

¹⁴¹ 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).

3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Magoffin District on or after June 8, 2024.

4. Within 20 days of the date of service of this Order, Magoffin District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

5. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ENTERED
MAY 24 2024 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director For

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00299 DATED MAY 24 2024

Miscellaneous Service Revenues	Num.	Current Rate	Total	Revised Rate	Adj	Pro Forma
Connection/Turn On Charge	0	\$35.00	\$0	\$ 16.00	\$0	\$0
Field Collection Charge	0	\$5.00	0	\$4.00	0	0
Meter Test Charge	0	\$50.00	0	\$55.00	0	0
Returned Check Charge	9	\$30.00	270	\$6.00	(216)	54
Reconnect Charge	450	\$35.00	15,750	\$12.00	(10,350)	5,400
Trial Balance Adjustment			824		(824)	0
Total			<u>\$ 16,844</u>		<u>\$ (11,390)</u>	<u>\$ 5,454</u>

Nonrecurring Charges Adjustments

Connection/Turn on Charge

	Magoffin Revised Charge	Staff Revised Charge
Field Expense Materials	\$7.50	\$7.50
Field Labor at \$20.00 for 1.0 hour	\$20.00	\$0.00
Supplies	5.00	0.00
Office Labor at \$15.00 for 1.0 hours	15.00	0.00
Transportation Expense	3.19	3.19
Total Nonrecurring Charge Expense	\$50.69	\$15.69
Rounded to	\$50.70	\$16.00
Current Rate	\$35.00	

Field Collection Charge

	Magoffin Revised Charge	Staff Revised Charge
Field Labor at \$20.00 for 1.0 hour	\$112.52	\$0.00
Supplies	1.00	1.00
Office Labor at \$52.10 for 0.5 hours	0.00	0.00
Transportation Expense	3.19	3.19
Total Nonrecurring Charge Expense	24.19	\$4.19
Rounded to	\$24.20	\$4.00
Current Rate	\$5.00	

Meter Test Charge

	Magoffin Revised Charge	Staff Revised Charge
Field Labor at \$20.00 for 1.0 hour	\$20.00	\$0.00
Meter Tester Labor at \$52.86 for 2.0 hours	50.00	50.00
Supplies	2.00	2.00
Office Labor at \$15.00 for 1.0 hours	15.00	0.00
Transportation Expense	3.19	3.19
Total Nonrecurring Charge Expense	\$90.19	\$55.19
Rounded to	\$90.00	\$55.00
Current Rate	\$50.00	

Reconnect Charge

	Magoffin Revised Charge	Staff Revised Charge
Field Labor at \$20.00 for 1.0 hour	\$20.00	\$0.00
Supplies	5.00	5.00
Office Labor at \$15.00 for 1.0 hours	15.00	0.00
Transportation Expense	3.19	3.19
Total Nonrecurring Charge Expense	\$51.69	\$16.69
Rounded to	\$52.00	\$17.00
Current Rate	\$35.00	

Returned Check Charge

	Magoffin Revised Charge	Staff Revised Charge
Field Labor at \$20.00 for 1.0 hour	\$20.00	\$0.00
Supplies	2.50	2.50
Office Labor at \$15.00 for 1.0 hours	15.00	0.00
Transportation Expense	3.19	3.19
Total Nonrecurring Charge Expense	\$40.69	\$5.69
Rounded to	\$41.00	\$6.00
Current Rate	\$35.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00299 DATED MAY 24 2024

The following rates and charges are prescribed for the customers in the area served by Magoffin County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

Residential
5/8-Inch Meter

First	2,000 Gallons	\$21.91	Minimum Bill
Next	3,000 Gallons	0.00981	Per Gallon
Next	5,000 Gallons	0.00911	Per Gallon
Over	10,000 Gallons	0.00841	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$51.34	Minimum Bill
Next	5,000 Gallons	0.00911	Per Gallon
Over	10,000 Gallons	0.00841	Per Gallon

Commercial
3/4-Inch Meter

First	3,000 Gallons	\$39.06	Minimum Bill
Next	2,000 Gallons	0.01252	Per Gallon
Next	5,000 Gallons	0.01159	Per Gallon
Next	5,000 Gallons	0.01067	Per Gallon
Over	15,000 Gallons	0.01025	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$64.11	Minimum Bill
Next	5,000 Gallons	0.01159	Per Gallon
Next	5,000 Gallons	0.01067	Per Gallon
Over	15,000 Gallons	0.01025	Per Gallon

2-Inch Meter

First	15,000 Gallons	\$175.44	Minimum Bill
Over	15,000 Gallons	0.01025	Per Gallon

Nonrecurring Charges	
5/8 x 3/4 Inch Meter Connection/ Tap-On Charge	\$1,200.00
Connection/Turn On Charge After Hours	\$16.00
Field Collection Charge	\$4.00
Meter Test Charge	\$55.00
Returned Check Charge	\$6.00
Reconnect Charge	\$17.00

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