

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MUHLENBERG)	
COUNTY WATER DISTRICT #3 FOR AN)	
ALTERNATIVE RATE ADJUSTMENT PURSUANT)	CASE NO.
TO 807 KAR 5:076)	2023-00400

ORDER

On December 20, 2023,¹ Muhlenberg County Water District #3 (Muhlenberg District #3) 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 9,² Muhlenberg District #3 used the calendar year ended December 31, 2022, as the basis for its application.

In its application, Muhlenberg District #3 requested rates that would increase its annual water sales revenues by \$258,478, or a 19.46 percent increase to pro forma present rate water sale revenues.³ Muhlenberg District #3 also proposed a \$1.10 per customer water loss surcharge.⁴

¹Muhlenberg District #3 tendered its application on December 12, 2023. By letter dated December 14, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on December 20, 2023.

² 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.

³ Application at 8.

⁴ Application at 8.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 9, 2024,⁵ and amended by Orders dated April 11, 2024,⁶ and May 14, 2024.⁷ Muhlenberg District #3 responded to three requests for information from Commission Staff.⁸

Commission Staff issued its report (Commission Staff's Report) on May 30, 2024, summarizing its recommendations regarding Muhlenberg District #3's requested rate adjustment.⁹ In the Commission Staff's Report, Commission Staff calculated that Muhlenberg District #3's adjusted test-year operations support an overall revenue requirement of \$1,650,241 and that a \$263,291 revenue increase, or 19.68 percent, to pro forma present rate revenues is necessary to generate the overall revenue requirement.¹⁰ 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.

On June 11, 2024, Muhlenberg District #3 filed its response to Commission Staff's Report.¹¹ In its written comments, Muhlenberg District #3 did not agree with removal of

⁵ Order (Ky. PSC, Jan. 9, 2024).

⁶ Order (Ky. PSC, Apr. 11, 2024).

⁷ Order (Ky. PSC, May 14, 2024).

⁸ Muhlenberg District #3's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 7, 2024). Muhlenberg District #3's Supplemental Response to Commission Staff's First Request for Information (filed Feb. 13, 2024). Muhlenberg District #3's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Mar. 6, 2024). Muhlenberg District #3's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Apr. 24, 2024).

⁹ Commission Staff's Report on Muhlenberg Water District #3 (Commission Staff's Report) (Ky. PSC May 30, 2024).

¹⁰ Commission Staff's Report at 19, Revenue Requirement Determination Table.

¹¹ Muhlenberg District #3's Response to Staff Report (filed June 11, 2024).

certain labor expenses from nonrecurring charges, but did not contest staff adjustments.¹² Muhlenberg District #3 also requested to not implement the \$1.10 surcharge as originally proposed as it believes its current efforts to control its water loss have resulted in much lower water loss for 2023 than what is reported for 2022.¹³ Additionally, Muhlenberg District #3 concurred with the findings presented in Commission Staff's Report and waived its right to request an informal conference or a hearing.¹⁴ The case now stands submitted for a decision by the Commission.

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."¹⁵ 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

Muhlenberg District #3 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

¹² Response to Commission Staff's Report (filed June 11, 2024) at 1.

¹³ Response to Commission Staff's Report at 1.

¹⁴ Response to Commission Staff's Report at 2.

¹⁵ *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).

approximately 1,983 residential customers and 85 commercial customers that reside in McLean and Muhlenberg counties, Kentucky.¹⁶ Muhlenberg District #3's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2018-00346.¹⁷ Since that matter, Muhlenberg District #3 has only adjusted its rates pursuant to purchased water adjustments.¹⁸

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Muhlenberg District #3 reported a water loss of 19.1359 percent.¹⁹ 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 Muhlenberg District #3 is \$126,804, while the annual cost of water loss in excess of 15 percent is \$27,407.

¹⁶ *Annual Report of Muhlenberg Water District #3 to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

¹⁷ Case No. 2018-00346, *Small Utilities Rate Adjustment Filing of Muhlenberg District #3* (Ky. PSC Apr. 8, 2019), final Order.

¹⁸ Case No. 2019-00387, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District #3* (Ky. PSC Nov. 20, 2019) and Case No. 2022-00231, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District No. 3* (Ky. PSC Sept. 2, 2022).

¹⁹ 2022 Annual Report at 58.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 639,836	\$ 22,815	\$ 662,651
Water Loss Percent	19.1359%	19.1359%	
Total Water Loss	\$ 122,438	\$ 4,366	\$ 126,804

Disallowed Water Loss	Water	Power	Total
Pro Forma Purchases	\$ 639,836	\$ 22,815	\$ 662,651
Disallowed Water Loss Percent	4.1359%	4.1359%	
Water Loss In Excess of Allowed Amount	\$ 26,463	\$ 944	\$ 27,407

TEST PERIOD

The calendar year ended December 31, 2022, was used as the test year to determine the reasonableness of Muhlenberg District #3's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Muhlenberg District #3's pro forma income statement as follows:

	Muhlenberg District #3 Test Year	Pro forma Adjustments	Commission Approved Pro forma
Total Operating Revenues	\$ 1,337,972	\$ 45,696	\$ 1,383,668
Utility Operating Expense	(1,445,230)	14,391	(1,430,839)
Utility Operating Income	(107,258)	60,087	(47,171)
Total Interest Income	3,282		3,282
Net Income Available to Service Debt	<u>(103,976)</u>	<u>60,087</u>	<u>(43,889)</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS AND MODIFICATION

Muhlenberg District #3 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. In addition, after having reviewed

the record, the Commission modifies Commission Staff's proposed adjustments as set forth below. The following is the Commission's complete pro forma.

	Test Year	Muhlenberg District #3 Proposed Adjustments	Commission Staff Adjustments	Commission Adjustments	Total Adjustments	(Ref.)	Pro Forma
Operating Revenues							
Metered Sales to Retail Customers	\$1,272,349	\$ 44,010	\$ 9,670		\$ 53,680	(A)	\$1,326,029
Sales for Resale	9,670	1,903			1,903	(A)	11,573
Other Water Revenues:							
Forfeited Discounts	18,739						18,739
Misc. Service Revenue	25,733		(9,887)		(9,887)	(B)	15,846
Other Water Revenue	11,481						11,481
Total Operating Revenues	1,337,972	45,913	(217)		45,696		1,383,668
Operating Expenses							
Operation and Maintenance Expenses							
Salaries and Wages - Employees	300,235	38,737	(14,230)		24,507	(C)	324,742
Salaries and Wages - Commissioners	18,000					(D)	18,000
Employee Pensions and Benefits	144,671	(10,030)	12,174		2,144	(E)	128,071
			2,629	(21,373)	(18,744)	(F)	
Purchased Water	635,079	(26,266)	(197)		(26,463)	(F)	613,373
			4,757		4,757	(F)	
Purchased Power	22,815	(944)			(944)	(G)	21,871
Materials and Supplies	53,011						53,011
Contractual Services	43,671						43,671
Transportation Expenses	20,414						20,414
Insurance - General Liability & Other	19,183						19,183
Insurance - Workers Comp	2,293						2,293
Advertising Expenses	217						217
Bad Debt	4,508						4,508
Miscellaneous Expenses	41,501						41,501
Total Operation and Maintenance Expenses	1,305,598	1,497	5,133	(21,373)	(14,743)		1,290,855
Depreciation Expense	113,158						113,158
Taxes Other Than Income	26,474	1,440	(1,088)		352	(H)	26,826
Total Operating Expenses	1,445,230	2,937	4,045	(21,373)	(14,391)		1,430,839
Net Operating Income	(107,258)	42,976	(4,262)	21,373	60,087		(47,171)
Interest Income	3,282						3,282
Income Available to Service Debt	\$ (103,976)	\$ 42,976	\$ (4,262)	\$ 21,373	\$ 60,087		\$ (43,889)

PRO FORMA OPERATING STATEMENT

Billing Analysis. In its application, Muhlenberg District #3 proposed an increase of \$44,010 to Total Metered Retail Sales for the test year of 2022 to reflect the current billing analysis.²⁰ Muhlenberg District #3 reported total metered water sales for the test year of \$1,272,349.²¹ Muhlenberg District #3 provided a billing analysis to calculate a normalized

²⁰ Application, Schedule of Adjusted Operations, Adjustment A.

²¹ 2022 Annual Report at 49.

revenue amount of \$1,316,359, based on the usage during the test year and using the rates authorized in its current tariff.²² Muhlenberg District #3 provided its billing analysis and Schedule of Adjusted Operations (SAO) as an Excel file,²³ in which Commission Staff found that the formula calculating the adjustment of \$44,010 was mathematically incorrect.

Commission Staff calculated an increase adjustment to Retail Sales of \$53,680, as shown in the table below. Commission Staff recommended Commission approval of the adjustment to increase Total Retail Metered Sales by \$53,680, because it met the rate making criteria of being known and measurable.

Revenue Classification	Bills	Gallons Sold	Revenue
Residential	23,679	86,206,100	990,908
Commercial	1,043	44,658,000	346,010
Totals	<u>24,722</u>	<u>130,864,100</u>	\$1,336,918
Less: Billing Adjustments			(10,889)
Normalized Revenue			<u>\$1,326,029</u>
Less: Metered Sales in Annual Report			(1,272,349)
Adjustment Needed to Retail Sales			<u><u>\$53,680</u></u>

The Commission finds that the adjustment and the normalized Metered Sales to Retail Customers revenue are known and measurable amounts, and the adjustment to pro forma Operating Revenues is reasonable.

Sales for Resale. In its application, Muhlenberg District #3 proposed an increase of \$1,903 to Sales for Resale for the test year of 2022 to reflect the current billing

²² Application, unnumbered page 13 of 48.

²³ Muhlenberg District #3's Response to Staff's First Request, Rate_Study_Muhlenberg_No_3.xlsx, Tab ExBA and Tab SAO.

analysis.²⁴ Muhlenberg District #3 reported total Sales for Resale for the test year of \$9,670.²⁵ Muhlenberg District #3 provided a billing analysis to calculate a normalized revenue amount of \$11,573, based on the Sales for Resale usage during the test year and using the current rates.²⁶

Commission Staff's calculations matched Muhlenberg District #3's proposed adjustment of \$1,903 to Sales for Resale revenue.²⁷ Commission Staff recommended Commission approval of an increase to Sales for Resale revenue of \$1,903.

The Commission finds that the adjustment and the normalized Sales for Resale revenue are known and measurable and the adjustment to pro forma Operating Revenues is reasonable.

Miscellaneous Service Revenue. Muhlenberg District #3 provided updated cost justification information for the Nonrecurring Charges²⁸ and Meter Tap Charges.²⁹ In Commission Staff's Report, all labor costs for charges occurring during normal business hours and all office labor charges from After-Hours nonrecurring charges were removed.³⁰ The calculation of these adjustments to the Nonrecurring Charges are included in a table

²⁴ Application, Schedule of Adjusted Operations, Adjustment A.

²⁵ 2022 Annual Report at 49.

²⁶ Muhlenberg District #3's Response to Staff's First Request, Rate_Study_Muhlenberg_No_3.xlsx, Tab ExBA and Tab SAO.

²⁷ Commission Staff's Report at 10-11.

²⁸ Muhlenberg District #3's Supplemental Response to Staff's First Request, 16_Nonrecurring_Charges_Regular_Hours_Cost_Justification.pdf, and 16_Nonrecurring_Charges_After_Hours_Cost_Justification.pdf.

²⁹ Muhlenberg District #3's Supplemental Response to Staff's First Request, 16_Tapping_Fee_Cost_Justification.pdf.

³⁰ Commission Staff's Report at 8.

provided in Appendix A. In Commission Staff's Report, the adjustments to the nonrecurring charges resulted in a decrease in Miscellaneous Service Revenue of \$9,887.³¹ Commission Staff verified Muhlenberg District #3's Miscellaneous Service Revenue of \$25,733 as reported in its 2022 Annual Report, which is made up of \$14,410³² from the General Ledger account titled Misc. Service Revenues and \$11,323³³ from the General Ledger account titled Credit Card Fees.³⁴ The Commission Staff's Report discussed how the Returned Check Charge revenue of \$520 was disallowed because Muhlenberg District #3 is not charged any bank fees for deposited checks that are returned for insufficient funds.³⁵

Commission Staff recommended the Commission approve Commission Staff's \$9,887 decrease to Miscellaneous Service Revenue, because it conforms with Commission precedent on Nonrecurring Charges.

The Commission finds that the Commission Staff's Report is consistent with recent Commission decisions, that labor expenses resulting from work performed during normal

³¹ Commission Staff's Report at 7-8.

³² Muhlenberg District #3's Response to Staff's First Request, 1a_General_Ledger_2022.pdf, at 425-430.

³³ Muhlenberg District #3's Response to Staff's First Request, 1a_General_Ledger_2022.pdf, at 430-545.

³⁴ 2022 Annual Report at 49.

³⁵ Commission Staff's Report at 11.

business hours should not be recovered through nonrecurring charges.³⁶ The Commission requires that charges be directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. For the reasons discussed above, the estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges, as proposed by Commission Staff. Thus, the Commission finds that Commission Staff's recommendation is reasonable; the revised nonrecurring charges as described in Appendix A to be reasonable; and that Muhlenberg District #3's Miscellaneous Service Revenue should be adjusted by \$9,887 because only the incremental cost related to the service should be recovered for service provided during normal business hours.

Salaries and Wages - Employees. In its application, Muhlenberg District #3 proposed a \$38,737 increase to Salaries and Wages – Employees expense to reflect board approved employee wage increases effective in 2024 and 2025.³⁷

Commission Staff, using the tables below, recalculated Muhlenberg District #3's proposed wages increase using only the 2024 wage increases. Commission Staff did not include the 2025 wage increases in its calculation because the increase is not effective until after the statutory date of this case. Commission regulation 807 KAR 5:076 Section

³⁶ Case No. 2023-00090, *Electronic Application of Henry County Water District #2 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2023); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 4, 2024); Case No. 2023-00090, *Electronic Application of Kirksville Water Association Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024).

³⁷ Application, Schedule of Adjusted Operations, Adjustment B.

9 specifies that "...the proposed rates shall be determined using a twelve (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."

The Commission finds that, although the Commission allows recovery for reasonable, known and measurable changes that adjust historic test year revenues and expenses to the current period; a pro forma adjustment for even a known and measurable change that will occur beyond the statutory date of the case crosses over into a forecasted test period and is not an authorized adjustment pursuant to the alternative rate filing regulations. Commission Staff used wage information Muhlenberg District #3 provided in its responses.³⁸

2024	Job Title	Proforma Pay Rate	Test Year Hours worked	Proforma Regular Wages	Test Year Overtime Hours	Proforma Overtime Wages	Proforma Total Wages
Position1	General Manager	\$ 30.16	2,080.00	\$ 62,732.80	0	0	\$ 62,732.80
Position2	Office Manager	23.73	2,080.00	49,358.40	34	1,223.40	50,581.80
Position3	Billing Clerk	18.62	2,080.00	38,729.60	83	2,314.56	41,044.16
Position4	Utility Clerk	15.50	1,474.82	22,859.71	0	0	22,859.71
Position5	Superintendent	22.62	2,080.00	47,049.60	208	7,069.65	54,119.25
Position6	Field Operator	20.12	2,080.00	41,849.60	327	9,880.93	51,730.53
Position7	Field Operator	18.00	2,080.00	37,440.00	157	4,234.14	41,674.14
Total			13,954.82	\$ 300,020.00	810	\$ 24,723.00	\$ 324,742.00

Pro Forma Salaries and Wages Expense	\$ 324,742
Test Year Salaries and Wages Expense	300,235
Adjustment	<u>\$ 24,507</u>

Commission Staff calculated a total increase to Salaries and Wages – Employees expense of \$24,507 or a reduction of \$14,230 to Muhlenberg District #3's proposed \$38,737 increase. Commission Staff's calculated total pro forma Salaries and Wages – Employees expense was \$324,742. Commission Staff recommended the Commission approve Commission Staff's proposed \$24,507 total increase to Salaries and Wages –

³⁸ Muhlenberg District #3's Response to Staff's First Request, Item 5; Muhlenberg District #3's Response to Staff's Second Request, Item 3.

Employees expense to reflect current wage rates for Muhlenberg District #3 because it is a known and measurable change.

The Commission finds that Commission Staff's total increase to Salaries and Wages – Employees of \$24,507 is reasonable because it reflects known and measurable changes in Muhlenberg District #3's wages since the test year.

Medical and Dental Premiums. In its application, Muhlenberg District #3 proposed a \$10,030 decrease to Employee Pensions and Benefits to reflect the allowable health insurance premium based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums and 60 percent employer contribution rate for dental premiums.³⁹ Commission Staff reviewed Muhlenberg District #3's calculation of its proposed adjustment and noted that the district used a dental employer contribution rate of 60 percent and did not use current premiums.⁴⁰ The Commission has used a dental employer contribution rate of 40 percent in the past to calculate a reasonable employer contribution in the revenue requirement based on the Willis Benchmark Survey.⁴¹

Commission Staff, using the tables below, recalculated Muhlenberg District #3's pro forma adjustments with a 40 percent dental employer contribution rate, 79 percent

³⁹ Application, Schedule of Adjusted Operations, Adjustment C.

⁴⁰ Commission Staff Report at 13-14.

⁴¹ Muhlenberg District #3's Response to Staff's First Request, Item 6. Muhlenberg District #3's Response to Staff's Second Request, Item 2.

single medical employer contribution rate,⁴² and updated premiums provided by Muhlenberg District #3.⁴³

Medical Insurance						
Position	Job Title	Single or Family Coverage	Monthly Premium	Annual Premium	Employer Contribution	Allowable Premium
1	General Manager	Single	\$ 629.00	\$ 7,548.00	79%	\$ 5,962.92
2	Office Manager	Single	694.32	8,331.84	79%	6,582.15
3	Billing Clerk	Single	846.11	10,153.32	79%	8,021.12
4	Utility Clerk	N/A	0	0	0%	0.00
5	Superintendent	Single	831.12	9,973.44	79%	7,879.02
6	Field Operator	Single	271.57	3,258.84	79%	2,574.48
7	Field Operator	Single	389.14	4,669.68	79%	3,689.05
Total			<u>\$ 3,661</u>	<u>\$ 43,935</u>		<u>\$ 34,709</u>

Dental Insurance						
Position	Job Title	Single or Family Coverage	Monthly Premium	Annual Premium	Employer Contribution	Allowable Premium
1	General Manager	Single	\$ 23.92	\$ 287.04	40%	114.82
2	Office Manager	Single	23.92	287.04	40%	114.82
3	Billing Clerk	Family	72.04	864.48	40%	345.79
4	Utility Clerk	N/A	0	0	0	0.00
5	Superintendent	Family	72.04	864.48	40%	345.79
6	Field Operator	Single	23.92	287.04	40%	114.82
7	Field Operator	Family	72.04	864.48	40%	345.79
Total			<u>\$ 288</u>	<u>\$ 3,455</u>		<u>\$ 1,382</u>

Pro Forma Medical	\$ 34,709	Pro Forma Dental	\$ 1,382	Medical Adjustment	2,485
Test Year Medical	32,224	Test Year Dental	1,722	Dental Adjustment	(340)
Adjustment	<u>\$ 2,485</u>	Adjustment	<u>\$ (340)</u>	Total Adjustment	<u>2,144</u>

Commission Staff calculated a total increase to Employee Pensions and Benefits expense of \$2,144 or an increase of \$12,174 to Muhlenberg District #3's proposed \$10,030 decrease. Commission Staff recommended the Commission approve

⁴² Bureau of Labor Statistics' Share of Premiums Paid by Employer and Employee for Single Coverage, 2023. (<https://www.bls.gov/news.release/eps2.t03.htm>).

⁴³ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017) at 9-10, and The Willis Benchmarking Survey, 2015 at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

Commission Staff's proposed \$2,144 total increase to Employee Pensions and Benefits expense to reflect current premiums for Muhlenberg District #3 and a reasonable health insurance premium based on BLS national average for an employer's share of health insurance premiums and 40 percent for dental premiums.

The Commission finds that Commission Staff's total increase to Employee Pensions and Benefits expense of \$2,144 is reasonable because it reflects Commission precedent on recoverable health insurance and dental insurance premiums based on the BLS and Willis Benchmark Study's national average for an employer's share of insurance premiums and that the adjustment to pro forma Operating Expense should be accepted.

County Employees Retirement System (CERS). In its application, Muhlenberg District #3 did not propose to make an adjustment to Employee Pensions and Benefits expense for changes in CERS contribution rates since the test year. Commission Staff, using the pro forma wages from above, calculated a \$2,629 increase to Employee Pensions and Benefits.⁴⁴ Commission Staff used the current CERS contribution rate at the time of the Commission Staff Report of 26.79 percent and a test year amount of \$78,245 Muhlenberg District #3 provided in its responses.⁴⁵

Wages applicable to CERS payments	\$	301,883
Times: Percent Pension Contribution		<u>26.79%</u>
Total Pro Forma Pension Contribution		80,874
Less Test Year Pension Contribution		<u>78,245</u>
Adjustment	\$	<u><u>2,628.99</u></u>

⁴⁴ Commission Staff's Report at 13-15.

⁴⁵ Muhlenberg District #3's Response to Staff's First Request, Item 6.

Commission Staff recommended the Commission approve Commission Staff's proposed \$2,629 increase to Employee Pensions and Benefits expense to reflect current CERS contribution rates and increases in wages.⁴⁶

The Commission notes that the current CERS contribution rate as of July 1, 2024, is 19.71 percent.⁴⁷ The Commission, using the pro forma wages from above and a 19.71 contribution rate, calculated a \$18,744 decrease to Employee Pensions and Benefits or a \$21,373 decrease to Commission Staff's adjustment.

Wages Applicable to CERS payments	\$	301,883
Times: Percent Pension Contribution		<u>19.71%</u>
Total Pro Forma Pension Contribution		59,501
Less Test Year Pension Contribution		<u>78,245</u>
Adjusment	\$	<u><u>(18,744)</u></u>

The Commission finds that the Commission's total decrease to Employee Pensions and Benefits expense of \$18,744 is reasonable as it reflects the current CERS contribution rate of 19.71 percent as of July 1, 2024.

Purchased Water. Muhlenberg District #3 reported a water loss of 19.1359 percent in its 2022 Annual Report.⁴⁸ In its application, Muhlenberg District #3 proposed a \$26,266 decrease to Purchased Water expense to reflect the maximum allowable water loss expense recoverable for rating making purposes of 15 percent.⁴⁹ Commission Staff reviewed Muhlenberg District #3's calculation and notes that that the district used the test

⁴⁶ Commission Staff's Report at 15-16.

⁴⁷ Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority. (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

⁴⁸ 2022 Annual Report at 58.

⁴⁹ Application, Schedule of Adjusted Operations, Adjustment D.

year Purchased Water expense amount of \$635,079 in its calculation.⁵⁰ Commission Staff calculated a pro forma Purchased Water expense of \$639,836 as shown in the table below. Commission Staff used total purchased gallons from the test year⁵¹ and the district's current purchase rate of water from Central City Municipal Water and Sewer of \$3.81 per thousand gallons to calculate a \$4,757 increase to Purchased Water expense.⁵² Commission Staff recommended approval of its proposed \$4,757 increase to Purchased Water expense to reflect Muhlenberg District #3's current purchase rate of water from Central City Municipal Water and Sewer.

Description	Total
Gallons	167,936
Current Purchase Rate	\$ 3.8100
Pro Forma Cost	\$ 639,836
Test Year Purchase Cost	635,079
Increase in Purchase Cost	<u>\$ 4,757</u>

The Commission finds that a \$4,757 increase to Purchased Water expense is known and measurable because it accurately reflects the current purchase water rate Muhlenberg District #3 pays.

Commission Staff calculated a total decrease of \$26,463 to Purchased Water expense or a reduction of \$197 to Muhlenberg District #3's proposed \$26,266 decrease. Commission Staff recommended the Commission approve Commission Staff's proposed \$26,463 total decrease to Purchased Water expense to reflect Muhlenberg District #3's

⁵⁰ Muhlenberg District #3's Response to Staff's First Request, Item 11, Rate_Study_Muhlenberg_No_3.xlsx.

⁵¹ 2022 Annual Report at 57.

⁵² Muhlenberg District #3's Response to Staff's First Request, Item 13.

current purchase rate of water from Central City Municipal Water and Sewer and the maximum allowable water loss expense recoverable for rating making purposes of 15 percent.

Disallowed Water Loss	Water
Pro Forma Purchases	\$ 639,836
Disallowed Water Loss Percent	4.1359%
Water Loss In Excess of Allowed Amount	<u>\$ 26,463</u>

The Commission finds that Commission Staff's \$26,463 total decrease to Purchased Water expense accurately reflects the Purchased Water expense associated with water loss in excess of 15 percent and that the adjustment to pro forma Operating Expense should be accepted.

Purchased Power. In its application, Muhlenberg District #3 proposed a \$944 decrease to Purchased Power expense to reflect the maximum allowable water loss expense recoverable for rating making purposes of 15 percent.⁵³ Commission Staff reviewed Muhlenberg District #3's calculation of its Purchased Power adjustment.⁵⁴

Commission Staff agreed with Muhlenberg District #3 proposed a \$944 decrease to Purchased Power expense and recommended the Commission approve the district's adjustment to reflect the maximum allowable water loss expense recoverable for rating making purposes of 15 percent.

The Commission finds that Muhlenberg District #3's \$944 decrease to Purchased Power expense accurately reflects the Purchased Power expense associated with water

⁵³ Application, Schedule of Adjusted Operations, Adjustment D.

⁵⁴ Muhlenberg District #3's Response Staff's First Request, Item 11, Rate_Study_Muhlenberg_No_3.xlsx.

loss in excess of 15 percent and that the adjustment to pro forma Operating Expense should be accepted.

Payroll Tax. In its application, Muhlenberg District #3 proposed a \$1,440 increase to Taxes Other Than Income to reflect board-approved employee wage increases.⁵⁵ Commission Staff, using the pro forma Salaries and Wages – Employees expense of \$324,742 as calculated above, calculated a new Payroll Tax adjustment below. Commission Staff used a test year amount of payroll taxes of \$24,491 from Muhlenberg District #3's response.⁵⁶

Pro Forma Salaries and Wages Expense	\$	324,742
Times: 7.65 Percent FICA Rate		<u>7.65%</u>
Pro Forma Payroll Taxes		<u>24,843</u>
Less: Test Year Payroll Taxes		<u>(24,491)</u>
Payroll Tax Adjustment	\$	<u><u>352</u></u>

Commission Staff calculated a total increase to Taxes Other Income of \$352 or a reduction of \$1,088 to Muhlenberg District #3's proposed \$1,440 increase.⁵⁷ Commission Staff recommended the Commission approve Commission Staff's proposed \$352 total increase to Salaries and Wages – Employees expense to reflect current wage rates for Muhlenberg District #3.⁵⁸

The Commission finds that Commission Staff's total increase of \$352 to Taxes Other Income known and measurable because it accurately reflects the increase in wages to Muhlenberg District #3.

⁵⁵ Application, Schedule of Adjusted Operations, Adjustment B.

⁵⁶ Muhlenberg District #3's Response Staff's First Request, Item 1b, 1b_2022_Trial_Balance.xlsx.

⁵⁷ Commission Staff's Report at 18.

⁵⁸ Commission Staff's Report at 18.

OVERALL REVENUE REQUIREMENT

The operating ratio methodology is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Muhlenberg District #3 has no long-term debt. This method also allows for adequate cash working capital for the utility, which is normally calculated as a component of debt instruments. Commission Staff recommended an operating ratio of 88 percent to allow Muhlenberg District #3 sufficient revenues to cover its operating expenses and provide for reasonable equity growth.

By applying the operating ratio method, the Commission has determined Muhlenberg District #3 Overall Revenue Requirement to be \$1,625,953. A revenue increase of \$239,003, or 17.87 percent, is necessary to generate the Overall Revenue Requirement. The Commission's calculation of the Overall Revenue Requirement and the Required Revenue Increase using the operating ratio method is shown below.

Pro Forma Operating Expenses	\$ 1,430,839
Divide by: 88 percent Operating Ratio	88%
Total Revenue Requirement	<u>1,625,953</u>
Less: Other Operating Revenue	(46,066)
Interest Income	(3,282)
Revenue Required From Water Sales	<u>1,576,605</u>
Less: Revenue from Sales at Present Rates	(1,337,602)
Required Revenue Increase	<u><u>239,003</u></u>
Percent Increase	<u><u>17.87%</u></u>

RATE DESIGN

Muhlenberg District #3 proposed to increase all of its monthly retail water service rates by approximately 19.46 percent across the board, in its application. Muhlenberg

District #3 did not perform a cost of service study (COSS).⁵⁹ The Commission has previously found that the allocation of a revenue adjustment evenly across a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the allocation methodology proposed by Muhlenberg District #3 and allocated the \$239,003 revenue increase evenly across Muhlenberg District #3's monthly retail water service rates.

The Commission accepts Commission Staff's recommendation and finds that this allocation is reasonable. The rates set forth in Appendix B to this Order are based upon the total revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from water sales to recover the \$1,576,605 Revenue Required from Water Sales, an approximate 17.87 percent increase. The rates will increase the monthly water bill of a typical residential customer using 4,000 gallons, from \$42.15 to \$49.63, an increase of \$7.48, or 17.75 percent.⁶⁰ The fractional difference between the increase in all rates and the increase in a typical customer's bill is spread out over all rate tiers.⁶¹

⁵⁹ Commission Staff's Report at 6.

⁶⁰ $\$49.63$ (Average Bill New Water Rates) - $\$42.15$ (Average Bill Current Water Rates) = $\$7.83$
(Total Difference in Customer Bill) \div $\$42.15$ (Average Bill Current Water Rates) = 17.75%

⁶¹ A typical customer uses 4,000 gallons a month, so the first 2,000 gallons increased from \$25.39 to \$29.91 which is the minimum bill. The second tier of 'Next 8,000 gallons' increased from \$8.38 per 1,000 gallons to \$9.86 per 1,000 gallons, so from $(\$8.38 \times 2) = \16.76 to $(\$9.86 \times 2) = \19.72 . There are three more tiers that a typical customer never uses or is charged for, which are Next 10,000 gallons, Next 30,000 gallons, and Over 50,000 gallons.

WATER LOSS SURCHARGE

In its application, Muhlenberg District #3's requested a \$1.10 monthly per customer water loss surcharge to be used to fund water loss mitigation efforts.⁶² During the test year of 2022 Muhlenberg District #3 had a water loss of 19.1359 percent.⁶³

In the Commission Staff's Report, Commission Staff recommended the Commission approve Muhlenberg District #3's Water Loss Reduction Surcharge in the amount of \$1.10 per customer per month for 48 months to help lower system losses to more acceptable levels.⁶⁴ The surcharge would produce approximately \$27,407 annually, and \$109,628 in total collections over the 48-month period.

In response to Commission Staff's Report, Muhlenberg District #3 requested the \$1.10 not be implemented because the current efforts to control water loss at the district resulted in a lower water loss since the test year.⁶⁵

The Commission reviewed Muhlenberg District #3 filed 2023 Annual Report with a reported water loss of 15.5462 percent⁶⁶ and agrees that the water loss surcharge should not be implemented due to the decrease in water loss. The Commission would like to stress the importance of funding depreciation, in lieu of the water loss surcharge, in the effort to combat water loss by reinvesting in the district's system.

⁶² Application, Reasons for Application.

⁶³ 2022 Annual Report at 58.

⁶⁴ Commission Staff's Report at 5-6.

⁶⁵ Response to Commission Staffs Report, Item 2.

⁶⁶ *Annual Report of Muhlenberg District #3 for the Year Ended December 31, 2023* at 58. This report has been filed with the Commission but is under review and has not yet been published on the Commission's website.

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, as modified herein, are supported by the evidence of record and are reasonable. By applying the Operating Ratio method to Muhlenberg District #3's pro forma operations results in a \$1,625,953 Overall Revenue Requirement, including \$1,576,605 of Revenue Required from Water Sales, resulting in a \$239,003 revenue increase, or 17.87 percent, to pro forma present rate revenues necessary to generate the Overall Revenue Requirement.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report, as modified above, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Muhlenberg District #3 are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Muhlenberg District #3 on or after the date of this Order.
4. Within 20 days of the date of service of this Order, Muhlenberg District #3 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.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

[Handwritten signature]
[Handwritten signature]
May Pat Regan

ENTERED
AUG 01 2024
rCS
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Linda C. Bridwell

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00400 DATED AUG 01 2024

* Denotes Rounding

Nonrecurring Charges Adjustments		
	Connection/Turn-On Charge Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$32.94 per hour)	\$32.94	
Office Supplies		
Office Labor	\$13.16	
Transportation (10 miles @ 0.67 per miles)	\$6.70	\$6.70
Total Revised Charge	\$52.80	\$7.00
Current Rate	\$25.00	
Reconnection Charge		
	Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$32.94 per hour)	\$32.94	
Office Supplies		
Office Labor	\$13.16	
Transportation (10 miles @ 0.67 per miles) <u>Non</u>	\$6.70	\$6.70
Total Revised Charge	\$52.80	\$7.00
Current Rate	\$40.00	
Service Call / Investigation Charge		
	Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$32.94 per hour)	\$32.94	
Office Supplies		
Office Labor	\$13.16	
Transportation (10 miles @ 0.67 per miles)	\$6.70	\$6.70
Total Revised Charge	\$52.80	\$7.00
Current Rate	\$40.00	

	Reconnection Charge-After Hours	
	Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$48.07 at 2 hours)	\$96.14	\$96.14
Office Supplies		
Office Labor	\$13.16	\$0.00
Transportation (10 miles @ 0.67 per miles)	\$6.70	\$6.70
Total Revised Charge	\$116.00	\$103.00
Current Rate	\$90.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00400 DATED AUG 01 2024

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County Water District #3. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$29.91	Minimum Bill
Next	8,000 Gallons	0.00986	Per Gallon
Next	10,000 Gallons	0.00943	Per Gallon
Next	30,000 Gallons	0.00887	Per Gallon
Over	50,000 Gallons	0.00846	Per Gallon

Wholesale Rate

First	300,000 Gallons	\$1,584.18	Minimum Bill
Over	300,000 Gallons	0.00529	Per Gallon

Nonrecurring Charges

Connection Turn-On Charge	\$7.00
Field Collection Charge	\$10.00
Meter Lock Damage	Actual
Meter Test Charge	\$35.00
Reconnection Charge	\$7.00
Returned Check Charge	\$0.00
Service Call/ Investigation Charge	\$7.00
After Hours Reconnection Charge	\$103.00
5/8 Inch Water Tap On	\$1,350.00
All Larger than 5/8-inch Meters	Actual

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