

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MORGAN)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2024-00010
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of April 12, 2024, as amended by Orders entered July 25, 2024, and August 16, 2024, the attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's August 16, 2024, Order, Morgan County Water District (Morgan District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Morgan District to the Commission's July 22, 2021, Order in Case No. 2020-00085¹ regarding filings with the Commission.



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

DATED SEP 10 2024

cc: Parties of Record

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

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COMMISSION STAFF'S REPORT
ON MORGAN DISTRICT

Morgan County Water District (Morgan 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 2,863 residential customers and 121 commercial that reside in Morgan County, Kentucky.¹

On March 22, 2024,² Morgan District filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,³ Morgan District used the calendar year ended December 31, 2022, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2021-00476 which required Morgan District to file an application for an adjustment of its base rates by February 18,

¹ *Annual Report of Morgan County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

² Morgan District tendered its application on March 15, 2024. By letter dated March 20, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on March 22, 2024.

³ 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.

2025.⁴ Morgan District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2020-00386.⁵ Since that matter, Morgan District has only adjusted its rates pursuant to purchased water adjustments, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity.

On March 22, 2024, Morgan District filed a motion requesting an emergency hearing to allow it to present evidence in support of an emergency interim rate increase of 25.3 percent and for the Commission to grant a deviation from the notice requirements of 807 KAR 5:076, Section 12(3).⁶ The Commission granted Morgan District's motion for an emergency hearing but denied its motion for a deviation of the notice requirements of 807 KAR 5:076, Section 12(3). To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated April 12, 2024. On May 2, 2024, a hearing was held for the purpose of taking evidence to determine whether Morgan District's request for interim emergency rate relief met the standard set forth in KRS 278.190(2). Morgan District responded to four rounds of requests for information from Commission Staff.⁷ Morgan District filed a post hearing brief on May 17, 2024.⁸ On

⁴ Case No. 2021-00476, *Electronic Application of Morgan County Water District for Approval to Issue of Securities for the Purpose of Refinancing Certain High Interest Indebtedness* (Ky. PSC Feb. 18, 2022), final Order at 8.

⁵ Case No. 2020-00386, *Small Utilities Rate Adjustment Filing of Morgan County Water District* (Ky. PSC June 9, 2021), final Order.

⁶ Motion for Emergency Interim Rates, (filed Mar. 22, 2024).

⁷ Morgan District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Apr. 26, 2024). Morgan District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed May 24, 2024). Morgan District's Response to Staff's Third Request for Information (Staff's Third Request) (filed Jun. 20, 2024), Morgan District's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request) (filed Aug. 26, 2024).

⁸ Morgan District's Post-Hearing Brief (filed May 17, 2024).

July 25, 2024, the Commission amended the procedural schedule.⁹ On July 26, 2024, the Commission issued an Order granting Morgan District the interim base rate increase of 25.3 percent, subject to refund.¹⁰ On August 15, 2024, Morgan District filed two motions. In the first motion Morgan District requested the Commission to grant it a deviation to authorize Morgan District to place the interim base rate increase into effect on and after August 16, 2024. In the second motion, Morgan District requested recovery of actual rate case expenses. Both motions are pending. On August 16, 2024, the Commission amended the schedule an additional time in order to allow time for the Staff's Fourth Request.

UNACCOUNTED-FOR WATER LOSS

The Commission notes that, in its 2022 Annual Report, Morgan District reported a water loss of 32.4487 percent.¹¹ 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 Morgan District is \$252,111, while the annual cost of water loss in excess of 15 percent is \$135,568.

⁹ Order (Ky. PSC July 25, 2024).

¹⁰ Order (Ky. PSC July 26, 2024) at 9.

¹¹ 2022 Annual Report at 57.

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 717,565	\$ 59,385	\$ 776,950
Water Loss Percent	32.4487%	32.4487%	
Total Water Loss	\$ 232,841	\$ 19,270	\$ 252,111

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 717,565	\$ 59,385	\$ 776,950
Water Loss in Excess of 15 Percent	17.4487%	17.4487%	
Cost of Excess Water Loss	\$ 125,206	\$ 10,362	\$ 135,568

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold.¹² Commission Staff strongly encourages Morgan District to study its system to identify the sources of unaccounted-for water loss. This is the logical first step toward developing the comprehensive plan to improve Morgan District's infrastructure and eliminate the identified sources of excessive water loss. Further steps would be determined based on the results of Morgan District's system study and the overall structural integrity of it and may require the seeking financing for system improvements.

DISCUSSION

Using its pro forma test-year operations, Morgan District determined that a base rate revenue increase of \$767,513, or 40.80 percent, was necessary to achieve the revenue requirement as shown in the table below.¹³

¹² See generally Commission final Orders for Rate Applications from 2017-present for language explaining the greater emphasis on encouraging efforts to reduce water loss and including the approximate amount of money the lost water represented to the utility. Case No. 2017-00176, *Electronic Application of Estill County Water District No. 1 for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 20, 2017), Order at 4.

¹³ Application, Attachment 4, Schedule of Adjusted Operations, 4_SAO_With_ Attachments.pdf

Description	Morgan District
Pro Forma Operating Expenses	\$ 2,412,954
Plus: Average Annual Principal and Interest Payments	249,358
Plus: Additional Working Capital	49,872
Overall Revenue Requirement	<u>2,712,184</u>
Less: Other Operating Revenue	(30,827)
Less: Interest Income	(72)
Less: Forfeited Discounts	(32,431)
Revenue Required from Rates	<u>2,648,854</u>
Less: Pro Forma Present Rate Service Revenues	(1,881,341)
Required Revenue Increase	<u><u>\$ 767,513</u></u>
Percentage Increase	<u><u>40.80%</u></u>

To determine the reasonableness of the rates requested by Morgan District, Commission Staff performed a limited financial review of Morgan District’s test-year operations. The scope of Commission Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable¹⁴ changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed. However, Commission Staff notes there were issues with Morgan District’s accounting and record keeping which

¹⁴ Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes.” See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

created difficulties in fully reviewing transactions to determine their purpose and appropriateness.

Commission Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Morgan District's Overall Revenue Requirement, and Jason Green reviewed Morgan District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff determined that Morgan District's required revenue from water sales is \$2,655,957 to meet the Overall Revenue Requirement of \$2,712,545 and that a \$774,616 revenue increase, or 41.17 percent, to pro forma present rate revenues is calculated to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon the revenue requirement, Morgan District proposed to increase all of its monthly retail water service rates evenly across the board by 40.80 percent. Morgan District did not perform a cost-of-service study (COSS).¹⁵

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.¹⁶ Finding no such evidence in this case, Commission Staff followed the proposed allocation methodology by Morgan District and allocated

¹⁵ Morgan District's Response to Staff's Second Request, Item 17a, 17b, and 17c.

¹⁶ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

Commission Staff's revenue increase of \$774,616 across the board to Morgan District's monthly retail water service rates.

The Commission issued an Order on July 26, 2024, authorizing Morgan District to implement emergency rates on an interim basis, an immediate increase of approximately 25.3 percent.¹⁷ The rates calculated and set forth in Appendix B will recover an additional 14.98 percent, for a total increase of 41.17 percent, which will produce sufficient revenues from water sales to recover the \$2,655,957 Revenue Required from Water Sales.

Using the rates that were in effect at the time of Morgan District's filing, the emergency interim rates will increase a typical residential customer's monthly water bill from \$43.99, to \$55.08, and increase of \$11.09, or approximately 25.20 percent. The rates contained in Appendix B to this report will increase a typical residential customer's monthly water bill from the emergency interim rates from \$55.08 to \$62.00, an increase of \$6.92, or approximately 12.56 percent.¹⁸ Therefore, overall, Commission Staff's recommended increase will increase a typical customer's bill from \$43.99 to \$62.00, an increase of \$18.01, or approximately 40.93 percent increase.

3. Nonrecurring Charges. Following the Commission's recent decisions,¹⁹ Commission Staff has reviewed Morgan District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal

¹⁷ Order (Ky. PSC July 26, 2024) at 9.

¹⁸ The average usage for a residential customer is 3,020 gallons.

¹⁹ Case No. 2023-00299, *Electronic Application of Magoffin County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 24, 2024); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 5, 2024); Case No. 2023-00258, *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. 2023-00220, *Electronic Application of East Casey County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 21, 2024).

business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges.²⁰ The labor during regular business hours is already recovered as a part of the revenue requirement. Morgan District provided updated cost justification information for the Nonrecurring Charges²¹ and Meter Tap charges.²² Commission Staff reviewed the cost justification information provided by Morgan District and adjusted these charges by removing the Field Labor Costs and the Office/Clerical Labor Costs from those charges that occur during normal business hours. Commission Staff also removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal business hours. The calculation of these adjustments to the Nonrecurring Charges are included in a table provided in Appendix A. The adjustments to the Nonrecurring Charges result in a net decrease in Other Operating Revenue of \$6,742 as shown below.

	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Disconnection Charge	404	\$45.00	\$25.00	-\$8,072	\$10,100
Reconnection Charge	398	\$17.40	\$20.00	\$1,037	\$7,960
Reconnection Charge (After Hours)	3	\$80.00	\$60.00	-\$60	\$180
Returned Payment Charge	31	\$2.00	\$15.00	\$403	\$465
Service Call/Investigation	10	\$17.40	\$21.00	\$0	\$210

²⁰ Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 5, 2024) at 10, citing 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).

²¹ Morgan District’s Response to Staff’s Second Request, Item 15, Nonrecurring Charge Cost Justification.

²² Morgan District’s Response to Staff’s Second Request, Item 15, Average Meter Connection Expense Cost Justification.

Service Call/Investigation (After Hours)	3	\$80.00	\$61.00	\$0	\$183
Meter Test Request	2	\$35.40	\$21.00		\$42
Pro Forma Test Year NRC Revenue					\$19,140
Less: Test Year NRC Revenue					<u>\$25,882</u>
Adjustment					<u><u>-\$6,742</u></u>

In addition to its nonrecurring charges, Morgan District provided updated cost justification sheets for their Meter Tap-On Fees for its 3/4 x 5/8-Inch meter sizes. The updated cost justification sheets support a tap-on fee of \$1,255, which is a decrease from its current tap-on fee of \$1,450. Commission Staff reviewed the cost justification sheets²³ provided by Morgan District and recommends a decrease in its Meter Tap-On Fee as the revised cost justification supports a lower cost.

4. Water Loss Surcharge. In its tariff, Morgan District has an existing water loss surcharge of \$5.87 per meter per month.²⁴ The \$5.87 surcharge was established in Morgan District's last rate case²⁵ and an ongoing monitoring case was established to monitor revenues generated from the surcharge in June 2021.²⁶ On October 13, 2023, Morgan District filed a motion that stated it had recovered the full amount it was authorized and requested to terminate the surcharge.²⁷ The Commission granted the motion on

²³ Morgan District's Response to Staff's Second Request, Item 15, Average Meter Connection Expense Cost Justification.

²⁴ P.S.C. Ky. 3, Sheet No. 4 (issued July 17, 2022), effective July 17, 2022.

²⁵ Case No. 2020-00386, (Ky. PSC Nov. 24, 2021), Order.

²⁶ Case No. 2021-00206, *Electronic Morgan County Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring*.

²⁷ Case No. 2021-00206, (filed Oct. 13, 2023), Motion to Terminate Surcharge, Item 1.

December 4, 2023.²⁸ Commission Staff does not recommend implementing a new surcharge at this time. As recommended above, Commission Staff strongly encourages Morgan District to study its system to identify the sources of unaccounted-for water loss. Further steps would be determined based on the results of Morgan District's system study and the overall structural integrity of it, but Morgan District will likely require additional debt in order to upgrade or improve its system. However, Morgan District also should focus on stabilizing rates and customer impact.

PRO FORMA OPERATING STATEMENT

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

²⁸ Case No. 2021-00206, (Ky. PSC Dec. 4, 2023), Order at 3, ordering paragraph 2.

	Test Year	Proposed Adjustment	Commission Staff Adjustment	Total Adjustment	(Ref.)	Pro Forma
Operating Revenues						
Total Metered Retail Sales	\$ 1,922,574	\$ (32,431) (8,802)		\$ (32,431) (8,802)	(A) (B)	\$ 1,881,341
Other Water Revenues:						
Forfeited Discounts		32,431	-	32,431	(A)	32,431
Other Water Revenue	229,652	(198,825)	(6,742)	(198,825) (6,742)	(C) (D)	24,085
Total Operating Revenues	2,152,226	(207,627)	(6,742)	(288,033)		1,864,193
Operating Expenses						
Operation and Maintenance Expenses						
Salaries and Wages - Employees	444,858	209,648 (32,805)	-	209,648 (32,805)	(E) (F)	621,701
Employee Pensions and Benefits	293,806	33,265 (53,127)	(11,532) (23,759) 5,227	21,733 (76,886) 5,227	(G1) (G2) (G3)	243,880
Purchased Water	717,565	(127,294)	2,088	(125,206)	(H)	592,359
Purchased Power	59,385	(10,535)	173	(10,362)	(H)	49,023
Materials and Supplies	231,172	(76,545)	-	(76,545)	(F)	154,627
Contractual Services	123,570		4,950	4,950	(I)	128,520
Transportation Expenses	58,562					58,562
Insurance - Gen. Liab. & Workers Comp	22,319					22,319
Insurance - Worker's Compensation	6,175					6,175
Advertising	1,519					1,519
Miscellaneous Expenses	29,948		(8,957)	(8,957)	(J)	20,991
Total Operation and Maintenance Expenses	1,988,879	(57,393)	(31,810)	(89,203)		1,899,676
Depreciation Expense	519,891	(88,493)	12,484	(76,009)	(K)	447,080
Amortization Expense	-	-	3,198	3,198	(L)	16,453
Taxes Other Than Income	33,243	16,827	16,453	16,453	(M)	50,070
Total Operating Expenses	2,542,013	(129,059)	325	(128,734)		2,413,279
Net Operating Income	(389,787)	(78,568)	(7,067)	(159,299)		(549,086)
Nonutility Income	353,443	(353,443)	-	(353,443)	(O)	-
Interest Income	72					72
Income Available to Service Debt	\$ (36,272)	\$ (432,011)	\$ (7,067)	\$ (512,742)		\$ (549,014)

(A) Reclassification of Forfeited Discounts. In its application, Morgan District proposed a decrease of \$32,431²⁹ from Metered Water Sales Revenue, and a corresponding increase to Forfeited Discounts, stating that Late Payment Penalties in the test year were incorrectly reported with sales from metered water sales.³⁰ After review of

²⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment A.

³⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Reference, Adjustment A.

Morgan District's 2021 general ledger, Commission Staff agrees with the reclassification of the \$32,431 to Forfeited Discounts.

(B) Billing Analysis. In its application, Morgan District reported total metered water sales revenue of \$1,922,574 for the test year in its Schedule of Adjusted Operations.³¹ Morgan District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year³² and calculated the normalized Meter Retail Sales based on the usage during the test year using the rates authorized in its current tariff to be \$1,881,341 and proposed an adjustment to decrease test-year water sales revenue by \$8,802³³ to reflect the revenues from water rates generated by the billing analysis.³⁴ Commission Staff recommends the Commission accept the adjustments because the amounts are known and measurable.

(C) Other Water Revenues – Water Loss Surcharge Revenue Removal. In its application, Morgan District proposed to decrease Other Water Revenues by \$198,825³⁵ to reflect the removal of water loss surcharge collections.³⁶ During the test year, Morgan District reported collecting \$198,825 as revenues from water sales³⁷ that, according to

³¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

³² Application, Attachment 5, 5_Current_Billing_Analysis.pdf, Current Billing Analysis.

³³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment B.

³⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment B.

³⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment C.

³⁶ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment C.

³⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Reference B.

the Uniformed System of Accounting, should be recorded as Contributions in Aid of Construction and credited to Account 271 – Contributions in Aid of Construction³⁸ and not included in Revenues. Commission Staff agrees with this adjustment, as it should not have been reported as Other Water Revenues. Commission Staff recommends the Commission accept the proposed adjustment.

(D) Other Water Revenues – Nonrecurring Charges. As discussed in the Nonrecurring Charges section above, the adjustments to the nonrecurring charges result in a decrease in Other Water Revenues of \$6,742.

(E) Salaries and Wages - Employees. In its application, Morgan District proposed an adjustment to increase Salaries and Wages by \$209,648,³⁹ to reflect the normalization of Employee Salaries.⁴⁰ Morgan District provided the test year employee list,⁴¹ test year overtime hours worked,⁴² current wage rates,⁴³ and a current employee list.⁴⁴ Subsequent to the test year, four employees left employment and five new

³⁸ Uniform System of Accounts for Class A/B Water Companies, at 83, Section 271 Contributions in Aid of Construction, Item A.

³⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment D.

⁴⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment D.

⁴¹ Morgan District's Response to Staff's Second Request, Item 24, 24_Employee_Salaries_and_Wages-5-24.xlsx, Emp Sal & Wages -2022 Tab.

⁴² Morgan District's Response to Staff's First Request, Item 5, Response_1-5_Rate_Study.xlsx, Adjustment Tab, Salaries & Wages and Associated Adjustments Table, Column J.

⁴³ Morgan District's Response to Staff's First Request, Item 5, Response_1-5_Rate_Study.xlsx, Adjustment Tab, Salaries & Wages and Associated Adjustments Table, Column K.

⁴⁴ Morgan District's Response to Staff's First Request, Item 5, Response_1-5_Rate_Study.xlsx, Adjustment Tab, Salaries & Wages and Associated Adjustments Table, Column H.

employees were hired.⁴⁵ During the hearing Morgan District reported that the five new employees were required.⁴⁶ Commission Staff calculated a Current Salaries and Wages – Employees amount of \$654,506, using the test year hours for employees and current wage rates. Commission Staff calculated a decrease of \$9,636, as shown in the following table. Morgan District normalized all full-time employees’ hours worked to 2,080,⁴⁷ and provided the actual test year overtime hours worked for the employees still with Morgan District.⁴⁸

Employee Number	Normalized Regular Hours Worked	Current Normal Wage Rates	Pro Forma Normal Wages	Test-Year Overtime Hours Worked	Current Overtime Wage Rates	Pro Forma Overtime Wages	Pro Forma Salaries and Wages
Employee 1	2,080	\$ 35.10	\$ 73,008		\$ 52.65	\$ -	\$ 73,008
Employee 2	2,080	21.63	44,990	10.00	32.45	324	45,314
Employee 3	2,080	21.63	44,990	12.00	32.45	389	45,379
Employee 4	2,080	21.00	43,680	180.50	31.50	5,686	49,366
Employee 5	2,080	21.00	43,680		31.50	-	43,680
Employee 6	2,080	21.00	43,680	72.20	31.50	2,274	45,954
Employee 7	2,080	20.00	41,600	90.00	30.00	2,700	44,300
Employee 8	2,080	19.23	39,998	12.50	28.85	361	40,359
Employee 9	2,080	18.27	38,002		27.41	-	38,002
Employee 10	2,080	17.00	35,360	10.00	25.50	255	35,615
Employee 11	2,080	17.00	35,360	3.50	25.50	89	35,449
Employee 12	2,080	16.00	33,280		24.00	-	33,280
Employee 13	2,080	15.00	31,200		22.50	-	31,200
Employee 14	2,080	15.00	31,200		22.50	-	31,200
Employee 15	2,080	15.00	31,200		22.50	-	31,200
Employee 16	2,080	15.00	31,200		22.50	-	31,200
Total			<u>\$ 642,428</u>			<u>\$ 12,078</u>	654,506
Less: Test Year Employee Salaries and Wages Expense							(444,858)
Total Salaries and Wages Adjustment							209,648
Less: Morgan District’s Proposed Adjustment							(209,648)
Commission Staff’s Additional Adjustment						<u>\$ -</u>	

⁴⁵ Morgan District’s Post Hearing Brief at 6–7, Gateway Grant Program.

⁴⁶ Hearing Video Transcription (HVT) of the May 2, 2024 Hearing, Shannon Elam Testimony, 02:03:26.

⁴⁷ Morgan District’s Response to Staff’s First Request, Item 5, Response_1-5_Rate_Study.xlsx, Adjustment Tab, Salaries & Wages and Associated Adjustments Table, Column I.

⁴⁸ Morgan District’s Response to Staff’s First Request, Item 5, Response_1-5_Rate_Study.xlsx, Adjustment Tab, Salaries & Wages and Associated Adjustments Table, Column J.

Commission Staff recommends the Commission accept Commission Staff's \$209,648 increase to Salaries and Wages – Employees; to reflect the normalization of test year salaries at current rates.

(F) Expenses Related to Meter Installations. In its application, Morgan District proposed an adjustment to decrease Salaries and Wages – Employees by \$32,805,⁴⁹ and Materials and Supplies by \$76,545,⁵⁰ to account for tap fee expenses that were included as part of these expenses during the test year.⁵¹ The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁵² Commission Staff agrees with Morgan District's proposed adjustment methodology. During the test year, Morgan District installed 74 new water connections,⁵³ 73 of which were 3/4-inch meters and 1 was a 1-inch meter and collected \$109,350⁵⁴ as shown in the following table.

⁴⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment E.

⁵⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment E.

⁵¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment E.

⁵² USoA, Accounting Instruction 19 and 33.

⁵³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment E.

⁵⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment E.

Meter Size	Number of New Connections	Tariff Charge	Total
3/4" meters	73	\$ 1,450	\$ 105,850
1" meters	1	Actual Cost	3,500
Total	<u>74</u>		<u>\$ 109,350</u>

Therefore, Commission Staff agrees with Morgan District’s proposed adjustments to decreased Salaries and Wages – Employee by \$32,805, and Materials and Supplies by \$76,545, as shown in the following table.

Description	Salaries and Wages - Employees	Materials and Supplies
Tap Fees Collected	\$ 109,350	\$ 109,350
Allocated Percent	30%	70%
Total Proposed Adjustment	(32,805)	(76,545)
Less: Morgan District Proposed Adjustments ()	32,805	76,545
Commission Staff’s Proposed Adjustment	<u>\$ -</u>	<u>\$ -</u>

Commission Staff recommends the Commission accept Morgan District’s \$32,805 decrease to Salaries and Wages – Employees and \$76,545 decrease to Materials and Supplies, to reflect the removal of expenses related to the installation of new water taps.

(G) Employee Pensions and Benefits – Medical Insurance Premiums. In its application, Morgan District proposed an adjustment to increase Employee Pensions and Benefits by \$33,265⁵⁵ to reflect Commission policy of limiting expenses for ratemaking purposes associated with providing employer contributions to employees’ medical

⁵⁵ Application, Attachment 4, Schedule of Adjusted Operations, 4_SAO_With_ Attachments.pdf, Adjustment D.

insurance at a percentage comparable to the Bureau of Labor Statistics' report.⁵⁶ Morgan District currently pays 100 percent for employee health, dental, and vision insurance premiums.⁵⁷ The Commission continues to place greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate.

The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.⁵⁸ Consistent with precedent,⁵⁹ Commission Staff agrees with Morgan District's proposed methodology but calculated a different amount. Commission Staff adjusted Morgan District's single health insurance plan premiums contribution expense to 79 percent,⁶⁰ and family insurance plan premiums contribution expense to 67 percent,⁶¹ as shown in the calculation below. Morgan District provided the most recent copy of its health, Dental, Vision, and Life insurance invoices.⁶² Accordingly, utilizing the most recent invoice amounts; Commission Staff calculated a net increase to

⁵⁶ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment D.

⁵⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment F.

⁵⁸ Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

⁵⁹ Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019), Order at 8–12.

⁶⁰ Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁶¹ Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁶² Morgan District's Response to Staff's Second Request, Item 20.

Employee Benefits of \$21,733 (G1), in order to account for both an increase in insurance premiums and a reduction for the average contribution based on the BLS statistics. Commission Staff's proposed adjustment is \$11,532 less than the adjustment proposed by Morgan District, as shown below.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Health Insurance - Single	11	\$ 8,953	21%	\$ (1,880)	\$ 7,073
Health Insurance - Family	1	2,320	33%	(766)	1,554
Vision Insurance	14	137	0%	-	137
Dental Insurance	14	405	60%	(243)	162
Life Insurance	16	163	0%	-	163
Total Pro Forma Monthly Premium		11,978		(2,889)	9,089
Times: 12 Months		12		12	12
Total Annual Pro Forma Premium		<u>\$ 143,736</u>		<u>\$ (34,668)</u>	109,068
Less: Test Year Insurance					(87,335)
Employee Benefits Adjustment					21,733
Less: Commission Staff Recommended Adjustment					(33,265)
Final Pro Forma Employee Benefits Adjustment					<u>\$ (11,532)</u>

Commission Staff recommends the Commission accept Commission Staff's \$21,733 increase to Employee Benefits; to reflect the change in insurance premiums and the reduction of Employee insurance employer contributions to the average contribution based on the BLS statistics.

Employee Benefits – Retirement (CERS). In its application, Morgan District proposed to decrease Employee Pensions and Benefits by \$53,127,⁶³ to reflect Morgan District's current salaries multiplied by the current contribution rates.⁶⁴ Morgan District participates in the Kentucky Public Pensions Authority (KPPA) – CERS through the

⁶³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment G.

⁶⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment G.

Morgan County Fiscal Court.⁶⁵ Commission Staff agrees with Morgan District's methodology; however, as discussed in Adjustment (E), Commission Staff calculated a normalized Salaries and Wages – Employees' expense of \$654,506. In addition, the KPPA fiscal year 2025, Effective July 1, 2024, contribution rate is 19.71 percent.⁶⁶ Using the Salaries and Wages – Employees, of \$654,506 and the current contribution rate, Commission Staff calculated a CERS contribution of \$129,003, which is a decrease of \$76,886 (G2) to Morgan District's test year pension contribution amount of \$205,889. The proposed adjustment is \$23,759 more than Morgan District's proposed decrease of \$53,127, as shown in the following table.

Description	Commission Staff Adjustment
Salaries and Wages - Employees	\$ 654,506
Multiplied by: Current CERS Contribution Rate	19.71%
CERS Retirement- Employer Contribution	129,003
Less: 'Test Year Expense ()	(205,889)
Employee Pensions and Benefits Adjustment	(76,886)
Less: Morgan District's Proposed Adjustment ()	53,127
Commission Staff Proposed Adjustment	<u>\$ (23,759)</u>

Commission Staff recommends the Commission accept Commission Staff's \$76,886 decrease to Employee Benefits – Retirement to reflect the reduction in expenses due to changes in both contribution rate and Employee Salaries and Wages.

⁶⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment G.

⁶⁶ KPPA, GASB Contribution Rates (<https://www.kyret.ky.gov/Employers/GASB/Pages/Contribution-Rates.aspx>).

Other Net Employee Pensions and Benefits Adjustment. Commission Staff calculated total Pro Forma Employee Pensions and Benefits of \$243,880 as shown below.

<u>Employee Pensions and Benefits Components</u>	<u>Pro Forma Amount</u>	<u>Ref</u>
Pro Forma Medical Insurance Premiums	\$ 109,068	
Uniforms/ Boots	5,143	
Clothing Allowances	666	
Pro Forma Retirement - CERS	129,003	
Pro Forma Employee Pensions and Benefits	243,880	
Less: Test Year Employee Pensions and Benefits ()	(293,806)	
Net Adjustments	<u>\$ (49,926)</u>	G

As discussed above, Commission Staff calculated an increase of \$21,733 for Medical Insurance Premiums; and a decrease of \$76,886 for Retirement – CERS. An additional \$5,227 adjustment, in order to attempt to reconcile the Uniforms/ Boots and the Clothing Allowances from the test year to the pro forma as determined by Commission Staff's review,⁶⁷ as shown in the following table.

<u>Description</u>	<u>Amount</u>	<u>Ref</u>
Medical Insurance Premiums Adjustment	21,733	G1
Retirement - CERS Adjustment	(76,886)	G2
Other Employee Benefits Adjustment	5,227	G3
Net Adjustments	<u>\$ (49,926)</u>	G

Commission Staff recommends the Commission accept Commission Staff's increase of \$5,227 to Employee Benefits; to reflect the reconciliation of the Uniforms/Boots and the Clothing Allowances from the test year to the pro forma.

⁶⁷ Commission Staff's Adjustment reflects the most accurate information related to the General Ledger that Commission Staff was able to determine based on Morgan District's incomplete information.

(H) Excess Water Loss. In its application, Morgan District proposed adjustments to decrease Purchased Water expense by \$127,294⁶⁸ and Purchased Power expense by \$10,535.⁶⁹ The adjustments are to reflect the expense for water loss in excess of 15 percent.⁷⁰ During the test year, Morgan District reported water loss of 32.4487 percent.⁷¹ As noted previously, Commission regulations do not permit the recovery of expenses for water loss in excess of 15 percent. In its application, Morgan District reported a test year Water Loss of 32.74 percent,⁷² Using the water loss percentage reported in the 2022 Annual Report; Commission Staff calculated a decrease of \$125,206 to Purchased Water expense, which is \$2,088 less than the \$127,294 proposed by Morgan District. Commission Staff also calculated a decrease of \$10,362 to Purchased Power Expense, which is \$173 less than the \$10,535 proposed by Morgan District, as shown in following table.

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 717,565	\$ 59,385	\$ 776,950
Water Loss in Excess of 15 Percent	17.4487%	17.4487%	17.4487%
Cost of Excess Water Loss	(125,206)	(10,362)	(135,568)
Morgan District Proposed Adjustment ()	127,294	10,535	137,829
Commission Staff's Proposed Adjustment	\$ 2,088	\$ 173	\$ 2,261

⁶⁸ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment H.

⁶⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment H.

⁷⁰ Application, Attachment 4, Schedule of Adjusted Operations, 4_SAO_With_ Attachments.pdf, References, Adjustment H.

⁷¹ 2022 Annual Report at 57.

⁷² Application, Attachment 4, Schedule of Adjusted Operations, 4_SAO_With_ Attachments.pdf, References, Adjustment H.

Commission Staff recommends the Commission accept Commission Staff's \$125,206 decrease to Purchased Water and \$10,362 decrease to Purchased Power to reflect the reduction in expenses due to excess water loss above 15 percent.

(I) Contractual Services. In its Post Hearing Brief, Morgan District reported its billing software will expire or become obsolete in December of 2024.⁷³ Morgan District reviewed its current options for upgrades and provided the selected quote.⁷⁴ Commission Staff recommends including the annual support fee for the new billing software in Morgan District's Contractual Services. Morgan District reported the total annual cost for the software updates, toll-free phone support, and remote modem support will be \$4,950 annually.⁷⁵ Commission Staff proposed an adjustment to increase Contractual Services by \$4,950, as shown in the following table.

<u>Annual Billing Software Cost</u>	<u>Amount</u>
Billing Module	\$ 2,700
Accounting Module	1,500
Mobile Work Order Application	750
Total Annual Cost	<u>\$ 4,950</u>

Commission Staff recommends the Commission accept Commission Staff's \$4,950 increase to Contractual Services to reflect the inclusion of expenses related to Morgan District's new billing software.

(J) Miscellaneous Expense – Charitable Contributions. During the test year, Morgan District hosted a Fundraising golf tournament in partnership with CITGO Water

⁷³ Morgan District's Post Hearing Brief at 9.

⁷⁴ Morgan District's Post Hearing Brief, Exhibit 9: Billing Software information.

⁷⁵ Morgan District's Post Hearing Brief, Exhibit 9: Billing Software information at 2.

and One Foundation.⁷⁶ Morgan District also participated in a river cleanup event on June 11, 2022, and also provided shirts for the event. Commission Staff calculated the total expenses of \$7,406 for the golf tournament and \$1,551 for the river clean-up, as shown in the following table:

Description	Amount
<i>MCWD Charity Golf Scramble</i>	
Hole In One Insurance	\$ 181
Boosting Facebook Post	10
Greens Fees for Golf Tournament	2,000
Hole Prizes for Golf Tournament	2,500
Prize Money for Golf Tournament	2,250
Boosting Facebook Post	21
Reno's Roadhouse - Green Fees for Tournament	444
sub-total	7,406
<i>Charitable Contribution - Ky River Clean-up</i>	
Food for River Clean-up	104
Company Shirts for Girls and River Clean Up	1,447
sub-total	1,551
Total	\$ 8,957

The Commission has consistently denied the inclusion of charitable contributions as an operating expense for rate-making purposes.⁷⁷ Therefore, Commission Staff removed these expenses from the Miscellaneous Expense, resulting in a decrease to Miscellaneous Expense of \$8,957. Commission Staff recommends the Commission accept Commission Staff's \$8,957 decrease to Miscellaneous Expense.

⁷⁶ Morgan District's Response to Staff's First Request, Item 4, April 11th Board Meetings.

⁷⁷ Case No. 9061, *Re Kentucky Power Company* (filed Dec. 4, 1984).

(K) Depreciation Expense. In the application, Morgan District proposed a decrease to Depreciation Expense of \$88,493⁷⁸ to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).⁷⁹ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979.⁸⁰ 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.⁸¹ Upon examination, Commission Staff agrees with Morgan District's methodology to adjust depreciation expense. However, Commission Staff calculated a depreciation expense of \$443,882. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff reduced Morgan District's Depreciation Expense by \$76,009, which is \$12,484 less than the \$88,493 proposed by Morgan District, as shown in the following table:

⁷⁸ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment H.

⁷⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment H.

⁸⁰ Case 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 22, 2023), Order at 30. Case 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024), Order at 36.

⁸¹ See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), Order. Case 2023-00134 *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 22, 2023), Order at 30. Case 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024), Order at 36.

Categories	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Structure and Improvements	35 - 40	814.80	(379.80)	435.00
Power Operated Equipment	10 - 15	8,838	(1,796)	7,042
Tools, Shop, & Garage Equipment	15 - 20	5,925	12,673	18,598
Office Furniture and Equipment:	20 - 25	3,333	(2,296)	1,037
Hydrants	40 - 60	312	104	416
Reservoirs and Tanks	30 - 60	651.15	217	868
Transportation Equipment	7	36,829	(1,305)	35,524
Transmission and Distribution Mains	50 - 75	462,511	(85,882)	376,629
Meters	30 - 60	677	34,847	3,333
Total		<u>\$ 519,891</u>	<u>\$ (43,818)</u>	<u>\$ 443,882</u>
Less: Recorded Test Year Depreciation Expense ()				(519,891)
Commission Staff's Proposed Adjustment				(76,009)
Less: Morgan District's Proposed Adjustment ()				88,493
Total Depreciation Expense Adjustment				<u>\$ 12,484</u>

Commission Staff recommends the Commission accept Commission Staff's \$76,009 decrease to Depreciation Expense, to reflect the normalization of Depreciation Expense.

(L) Depreciation Expense – Billing Software. As discussed in Adjustment (I), Morgan District's billing software will become obsolete or expire in December 2024, therefore will require replacement. Morgan District provided the quote for the Utility Billing Module as well as the Accounting Module;⁸² the total cost for both the billing and accounting modules is \$31,975. Commission Staff proposes to include \$3,198 to the annual depreciation expense for the new Billing and accounting modules, as shown in the following table.

⁸² Morgan District's Post Hearing Brief, Exhibit 9: Billing Software information at 1.

Description	Amount
Cost of Total Cost for Billing and Accounting Modules	\$ 31,975
Divided by NARUC Deprecation Communication Equipment	10
Billing Software Depreciation	<u>\$ 3,198</u>

Commission Staff recommends the Commission accept Commission Staff's \$3,198 increase to Depreciation Expense, to reflect the annual depreciation of the Billing and Accounting modules.

(M) Amortization of Rate Case Expense. On August 15, 2024, Morgan District filed a motion requesting the Commission allow recovery of rate case expenses incurred as of July 31, 2024.⁸³ In the motion, Morgan District proposed an adjustment to increase Amortization Expense by \$16,453 to reflect the three-year amortization of the estimated rate case expense.⁸⁴ As a part of the Motion, Morgan District supplied copies of the invoices for the expenses incurred in the preparation of the rate case.⁸⁵

It is Commission precedent to amortize the cost of rate case assistance over three years in the absence of a different period requested by a utility;⁸⁶ therefore, Commission Staff agrees with amortizing the rate case expenses over a three-year period. Setting the amortization along the lines with the expected time between rate cases ensures regulatory assets are not over –or under- amortized. Commission Staff reviewed the invoices supplied and agrees with the proposed recovery of the \$49,360 over a three-year period, for an annual amortization expense of \$16,453. Commission Staff

⁸³ Motion to Recover Rate Case Expense, (filed Aug. 15, 2024), Item 6.

⁸⁴ Motion to Recover Rate Case Expense, Item 6.

⁸⁵ Motion to Recover Rate Case Expense, Appendix A.

⁸⁶ Case 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), Order at 9–10.

recommends the Commission agree with Morgan District’s motion to allow the recovery of rate case expenses over a three-year amortization period.

(N) Taxes other than Income – Federal Insurance Contributions Act (FICA). In its application, Morgan District proposed an adjustment to increase Taxes Other Than Income by \$16,827,⁸⁷ to reflect the increase in payroll taxes due to the proposed increase in Salaries and Wages Expense.⁸⁸ As explained in Adjustment (E) above, Commission Staff calculated Salaries and Wages – Employees of \$654,506. Therefore, Commission Staff agrees with Morgan District’s calculation for an increase to Taxes Other Than Income of \$16,827, as shown in the following table.

Description	Amount
Total Salaries and Wages	654,506
Times: 7.65 Percent FICA Rate	7.65%
Total Taxes Other Than Income	50,070
Less: Test Year Taxes Other Than Income	(33,243)
Taxes Other Than Income Tax Adjustment	16,827
Less: Proposed Adustment	(16,827)
Commission Staff’s Proposed Adjustment	<u>\$ -</u>

Commission Staff recommends the Commission approve the adjustment to increase Taxes other than Income by \$16,827, because it is a direct result from changes to Salaries and Wages – Employees

⁸⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment J.

⁸⁸ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment J.

(O) Nonutility Income: In its application, Morgan District proposed an adjustment to reduce Nonutility Income by \$353,443,⁸⁹ to reflect the removal of funds provided to Morgan District that were erroneously reported as part of nonutility income.⁹⁰ The funds are: (1) USDA gave Morgan District \$292,591 to fund the Old Hwy 12 Project – a water loss project that replaced sections of line that had multiple water leaks over the last few years; (2) In 2022 the Federal Emergence Management Agency (FEMA) gave Morgan District \$53,543 for damage caused by the 2021 ice storm; (3) Another payment from FEMA for \$709 for damage caused by the 2021 flood; and (4) An insurance reimbursement of \$6,600 was received to replace meters and meter setters that were stolen from Morgan District.⁹¹ These transactions are unusual transactions not expected to reoccur;⁹² and therefore should be removed from the test year. Commission Staff agrees with Morgan District’s proposed adjustment and decreased Nonutility Income by \$353,443. Commission Staff recommends the Commission accept the adjustment to remove unusual occurrences from the Pro Forma Nonutility Income.

⁸⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Revenue Requirements Table, Adjustment L.

⁹⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Requirements Table, References, Adjustment L.

⁹¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Requirements Table, References, Adjustment L.

⁹² HVT of the May 2, 2024 Hearing, Robert Miller Testimony, 09:53:30.

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.⁹³ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a noncash item, to provide working capital;⁹⁴ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

Descriptio	Morgan District	Commission Staff	
Pro Forma Operating Expenses	\$ 2,412,954	\$ 2,413,279	
Plus: Average Annual Principal and Interest Payments	249,358	249,388	(1)
Plus: Additional Working Capital	49,872	49,878	(2)
Overall Revenue Requirement	2,712,184	2,712,545	
Less: Other Operating Revenue	(30,827)	(24,085)	
Less: Interest Income	(72)	(72)	
Less: Forfeited Discounts	(32,431)	(32,431)	
Revenue Required from Rates	2,648,854	2,655,957	
Less: Pro Forma Present Rate Service Revenues	(1,881,341)	(1,881,341)	
Required Revenue Increase	<u>\$ 767,513</u>	<u>\$ 774,616</u>	
Percentage Increase	<u>40.80%</u>	<u>41.17%</u>	

⁹³ 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).

⁹⁴ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Morgan District had three loans with United States Department of Agriculture (USDA) Rural Development (RD),⁹⁵ and two outstanding Kentucky Rural Water Finance Corporation (KRWFC) bonds.⁹⁶ In its application, Morgan 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 2024 through 2028.⁹⁷ However, because the statutory date for a final Order to be issued in this proceeding is January 22, 2025, the 2024 debt service payments will be recovered through Morgan 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 Morgan District's Annual Principal and Interest Expense. Commission Staff agrees with Morgan District's proposed methodology. However, when Commission Staff calculated the five-year Average Annual Principal and Interest Payments for the years 2025 through 2029, it calculated \$249,388, as shown in the following table.

⁹⁵ Case No. 2000-00492, *The Application of Morgan County Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023* (Ky. PSC Dec. 12, 2000). Case No. 2006-00204, *The Application of Morgan County Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023* (Ky. PSC May 31, 2006). Case No. 2008-00242, *The Application of Morgan County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Jul. 29, 2008).

⁹⁶ Case No. 2016-00342, *Application of Morgan County Water District to Issue Securities in the Approximate Principal Amount of \$1,320,000 for the Purpose Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 And 807 Kar 5:001* (Ky. PSC Nov. 22, 2016). Case No. 2021-00476, *Electronic Application of Morgan County Water District for Approval to Issue of Securities for the Purpose of Refinancing Certain High Interest Indebtedness* (Ky. PSC Feb. 18, 2022).

⁹⁷ Application, Attachment 4, Attachment 4, 4_SAO_With_Attachments.pdf, Revenue Requirements Table.

C.Y.	CY 2025		CY 2026		CY 2027		CY 2028		CY 2029		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
Series 2002	\$ 9,000	\$ 6,143	\$ 9,500	\$ 5,850	\$ 10,000	\$ 5,541	\$ 10,000	\$ 5,216	\$ 5,216	\$ 15,216	\$ 81,682
Series 2006	22,000	30,071	23,000	29,164	24,000	28,215	25,000	27,225	26,000	26,194	260,869
Series 2008	28,820	47,191	28,820	46,002	31,250	44,764	32,540	43,475	33,880	42,133	378,875
KRWFC Series 2016	60,000	37,762	60,000	35,062	65,000	32,262	65,000	29,662	65,000	27,062	476,810
KRWFC Series 2021	6,500	3,288	6,500	3,215	6,500	3,142	6,500	3,068	7,000	2,993	48,706
5-Year Totals	\$ 126,320	\$ 124,455	\$ 127,820	\$ 119,293	\$ 136,750	\$ 113,924	\$ 139,040	\$ 108,646	\$ 137,096	\$ 113,598	1,246,942
Divided by 5 years											5
Average Annual Principal and Interest Payments											\$ 249,388

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Morgan District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual principal and debt payments at the time of its application for a total of \$49,872.⁹⁸

Following the Commission's historic practice,⁹⁹ Commission Staff agrees with Morgan District's methodology and determined an Additional Working Capital amount of \$49,878, as shown in the following table.

Average Annual Principal and Interest	\$ 249,388
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	299,266
Less: Average Annual Principal and Interest Payments ()	(249,388)
Additional Working Capital	<u>\$ 49,878</u>

⁹⁸ Application, Attachment 4, Schedule of Adjusted Operations, 4_SAO_With_ Attachments, 4_SAO_With_Attachments.pdf, Revenue Requirements Table.

⁹⁹ 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).

SUPPLEMENTAL COMMISSION STAFF COMMENTS

Commission Staff has serious concerns about Morgan District's accounting records. During its review of the general ledger, Commission Staff experienced considerable difficulty tracing and reviewing transactions to determine their purpose and appropriateness for inclusion in Pro Forma calculations. Commission Staff recommends that the Commission encourage Morgan District evaluate the need for more extensive operational and functional management guidance in the form of Kentucky Rural Water assistance, either hiring or contracting a full-time accounting or financial management assistance and continuing to utilize of legal counsel who is experienced with Kentucky law for regulated utilities.

Signatures

/s/ William Coston for William Foley

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

/s/ Jason Green

Prepared by: Jason Green
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00010 DATED SEP 10 2024

* Denotes Rounding

Nonrecurring Charges Adjustments

Disconnection Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ 4.00	\$ 4.00	
Field Labor	\$ 25.00	\$ -	
Office Supplies	\$ 1.00	\$ 1.00	
Office Labor	\$ 25.00	\$ -	
Transportation	\$ 20.00	\$ 20.00	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 75.00	\$ 25.00	
Current Rate	\$45.00		

Service Call/Investigation (After Hours)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials			
Field Labor	\$ 40.00	\$ 40.00	
Office Supplies	\$ 1.00	\$ 1.00	
Office Labor	\$ 40.00	\$ -	
Transportation	\$ 20.00	\$ 20.00	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 101.00	\$ 61.00	
Current Rate	\$80.00		

Meter Test Request			
	Utility Revised Charge	Staff Revised Charge	
Field Materials			
Field Labor	\$ 50.00	\$ -	
Office Supplies	\$ 1.00	\$ 1.00	
Office Labor	\$ 25.00	\$ -	
Transportation	\$ 20.00	\$ 20.00	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 96.00	\$ 21.00	
Current Rate	\$35.40		

Reconnection Charge (After Hours)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ 40.00	\$ 40.00	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 40.00	\$ -	
Transportation	\$ 20.00	\$ 20.00	
Misc.	\$ -	\$ -	
Total Revised Charge	\$ 100.00	\$ 60.00	
Current Rate	\$80.00		

Reconnection Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 25.00	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ 25.00	\$ -
Transportation	\$ 20.00	\$ 20.00
Misc.	\$ -	\$ -
Total Revised Charge	\$ 70.00	\$ 20.00
Current Rate	\$ 17.40	

Returned Check Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ 25.00	\$ -
Transportation	\$ -	\$ -
Misc. (Bank Charge)	\$ 15.00	\$ 15.00
Total Revised Charge	\$ 40.00	\$ 15.00
Current Rate	\$ 2.00	

Service Call/Investigation		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 25.00	\$ -
Office Supplies	\$ 1.00	\$ 1.00
Office Labor	\$ 25.00	\$ -
Transportation	\$ 20.00	\$ 20.00
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 71.00	\$ 21.00
Current Rate	\$ 17.40	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00010 DATED SEP 10 2024

The following rates and charges are recommended by Commission Staff based on the adjustments in Commission Staff's Report for the customers in the area served by Morgan County Water District. All other rates and charges not specifically mentioned herein shall remain the same.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000	gallons	\$ 44.97	Minimum bill
Next	3,000	gallons	0.01669	per gallon
Next	5,000	gallons	0.01550	per gallon
Next	5,000	gallons	0.01432	per gallon
All Over	15,000	gallons	0.01309	per gallon

1-Inch Meter

First	5,000	gallons	\$ 95.41	Minimum bill
Next	5,000	gallons	0.01550	per gallon
Next	5,000	gallons	0.01432	per gallon
All Over	15,000	gallons	0.01309	per gallon

2-Inch Meter

First	15,000	gallons	\$ 242.71	Minimum bill
All Over	15,000	gallons	0.01309	per gallon

6-Inch Meter

First	100,000	gallons	\$1,359.49	Minimum bill
All Over	100,000	gallons	0.01309	per gallon

4-Inch Meter Wholesale \$0.00638 per gallon

Nonrecurring Charges

Disconnection Charge	\$25.00
Reconnection Charge	\$20.00
Reconnection Charge (After Hours)	\$60.00
Returned Payment Charge	\$15.00

Service Call/Investigation	\$21.00
Service Call/Investigation (After Hours)	\$61.00
Meter Test Request	\$21.00
Tap On Fee – 3/4 x 5/8-Inch Meter	\$1,255.00

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