


COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
CANNONSBURG WATER DISTRICT FOR A)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR)	2024-00155
5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of June 12, 2024, as amended on September 26, 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 June 12, 2024 Order, as amended on September 26, 2024, Cannonsburg Water District (Cannonsburg 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 Cannonsburg 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 OCT 17 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 CANNONSBURG WATER DISTRICT

Cannonsburg Water District (Cannonsburg District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 3,454 residential customers, 277 commercial customers, and 2 industrial customers that reside in Boyd and Greenup counties Kentucky.¹

On May 22, 2024,² Cannonsburg 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 Cannonsburg District used the calendar year ended December 31, 2022, as the basis for its application. Cannonsburg District's last base rate increase pursuant to the alternative rate filing

¹ *Annual Report of Cannonsburg District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 11, 12, and 49.

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

procedure was in Case No. 2018-00376.⁴ Since that matter, Cannonsburg District has only adjusted its rates pursuant to a wholesale rate adjustment. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated June 12, 2024. The procedural schedule was amended by Order issued September 26, 2024. Cannonsburg District timely responded to four requests for information.⁵

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Cannonsburg District reported a water loss of 17.5224 percent.⁶ 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 Cannonsburg District is \$177,979, while the annual cost of water loss in excess of 15 percent is \$25,621.

⁴ Case No 2018-00376, *Application of Cannonsburg Water District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076*.

⁵ Cannonsburg District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed July 18, 2024), Cannonsburg District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Aug. 15, 2024), Cannonsburg District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Sept. 6, 2024), Cannonsburg District's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request) (filed Sept. 6, 2024).

⁶ *Annual Report of Cannonsburg District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 58.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 940,853	\$ 74,871	\$ 1,015,724
Water Loss Percent	17.5224%	17.5224%	17.5224%
Total Water Loss	\$ 164,860	\$ 13,119	\$ 177,979

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 940,853	\$ 74,871	\$ 1,015,724
Water Loss in Excess of 15%	2.5224%	2.5224%	2.5224%
Disallowed Water Loss	\$ 23,732	\$ 1,889	\$ 25,621

As of September 30, 2024, Cannonsburg District had \$559,248.89 in yet to be expended funds from its water loss surcharge fees monitored through Case No. 2014-00267.⁷ Commission Staff recommends Cannonsburg District review its “unaccounted-for water loss reduction plan”⁸ and request Commission approval to expend the remaining funds towards a project(s) in order to improve its water loss.

DISCUSSION

To comply with the requirements of 807 KAR 5:076, Section 9,⁹ Cannonsburg District used the calendar year ended December 31, 2022, as the basis for its application. Using its pro forma test-year operations, Cannonsburg District determined that a base rate revenue increase of \$418,539, or 16.72 percent, was necessary to achieve the

⁷ Case No. 2014-00267, *Cannonsburg Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring* (Ky. PSC Aug. 7, 2014). The amount as of Aug. 31, 2024.

⁸ Letter from Danny R. Clarkston, Manager of Cannonsburg Water District, to Jeff Derouen, Executive Director of the Kentucky Public Service Commission (Sept. 21, 2013).

⁹ 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.

revenue requirement.¹⁰ The rates requested by Cannonsburg District would increase the residential monthly bill of a typical customer using 3,382 gallons per month by \$6.47 from \$38.51 to \$44.98, or approximately 16.80 percent.¹¹ Commission Staff noticed that Cannonsburg District had included \$21,075 in Nonutility Income but did not subtract the amount from its Revenue Requirement. In response to Commission Staff’s inquiry,¹² Cannonsburg District confirmed that the \$21,075 should be subtracted from its Revenue Requirement, and the Nonutility Income should be included in the calculation of total revenue.¹³ Consequently, Commission Staff adjusted Cannonsburg District’s Required Revenue Increase to \$397,464 or 15.88 percent as shown in the table below.

Description	Cannonsburg Water District
Pro Forma Operating Expenses	\$ 2,601,169
Operating Ratio	88%
Subtotal	<u>2,955,874</u>
Add: Average Annual Interest Expense	38,861
Total Revenue Requirement	<u>2,994,735</u>
Less: Other Operating Revenue	(71,502)
Less: Interest Income	(1,375)
Less: Nonutility Income	(21,075)
Revenue Required from Rates	<u>2,900,783</u>
Less Normalized Revenues from Water Sales	(2,503,319)
Required Revenue Increase	<u><u>\$ 397,464</u></u>
Percentage Increase	<u><u>15.88%</u></u>

¹⁰ Cannonsburg District’s Application, Attachment 4, Statement of Adjusted Operations.

¹¹ Cannonsburg District’s Application, Attachment 1, Customer Notice. There is an error on page two of the notice. The columns say current and current. The notice should have read current and proposed rates as set out on page 1 of the notice.

¹² Staff’s Second Request, Item 12.

¹³ Cannonsburg District’s Response to Staff’s Second Request, Item 12.

To determine the reasonableness of the rates requested by Cannonsburg District, Commission Staff performed a limited financial review of Cannonsburg 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.

Commission Staff's recommendations are summarized in this report. William Pearce reviewed the calculation of Cannonsburg District's Overall Revenue Requirement, and Manuel Jerez Tamayo reviewed Cannonsburg District's reported revenues and rate design.

SUMMARY OF FINDINGS

Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio (OR) method, requested by Cannonsburg District, and as accepted by the Commission, Commission Staff found that Cannonsburg District's required revenue from water sales is \$2,988,124 to meet the Overall Revenue Requirement of \$3,081,846, and that a \$484,805 revenue increase, or 19.37 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

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).

Monthly Water Service Rates. In its application, Cannonsburg District proposed to increase all of its monthly retail and wholesale water service rates.¹⁵ Cannonsburg District stated that it did not consider filing a COSS at this time as there has been no material changes in the water system that would cause a new COSS to be prepared.¹⁶ 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.¹⁷ Finding no such evidence in this case, Commission Staff allocated the \$484,805 revenue increase evenly across Cannonsburg District's monthly retail water service rates.

The rates set forth in Appendix B to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,988,124 Revenue Required from Rates, an approximate 19.37 percent increase. Commission Staff notes that its calculated revenue requirement increase is almost 122 percent of Cannonsburg District's proposed rates,¹⁸ which will require Cannonsburg District to provide re-notice of the proposed rate increase to its customers, based on 807 KAR 5:076, Section 11(3)(f). The monthly water bill for a

¹⁵ Application, Attachment 2, Reasons for Application.

¹⁶ Cannonsburg District's Response to Staff's First Request, Item 12a at 13.

¹⁷ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

¹⁸ $19.37\% / 15.88\% = 1.2197$ or 121.97 percent.

typical residential customer using approximately 3,382 gallons per month will increase from \$38.51 to \$45.97 for an increase of \$7.46, or approximately 19.37 percent.¹⁹

Nonrecurring Charges. Following the Commission's previous decisions,²⁰ Commission Staff has reviewed Cannonsburg District's Nonrecurring Charges. The Commission previously found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges considering those expenses are recovered as part of salaries and wages expense. Cannonsburg District provided the cost justification for the nonrecurring charges.²¹

Commission Staff reviewed the cost justification information provided by Cannonsburg District and adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Cannonsburg District provided a list of the number of occurrences for each of its nonrecurring charges. This list included two charges with amounts that did not match the charge in Cannonsburg District's Current Tariff.²² Re-Connection Charge After Hours was listed as \$35 instead of the \$75 amount listed in

¹⁹ Application, Attachment 1, Customer Notice at 2, the average retail customer has a 3/4-Inch x 5/8-Inch Meter using 3,382 gallons per month as used by Cannonsburg District.

²⁰ 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 Cannonsburg District's Response to Staff's First Request, Item 17 at 18, Attachment 17_NonRecurring_Charges_Cost_Justification.

²² Cannonsburg District's Response to Staff's Second Request, Item 15_No_of_Occurances,_Charges_and_Totals_Collected.pdf.

Cannonsburg District's Tariff.²³ Meter Test Charge was also improperly reported as \$75 while the correct amount in the tariff is \$70.²⁴ Connection/ Turn on After Hours, Re-Connection Charge After Hours, and Service Call/ Investigation Charge After Hours increased substantially from \$75 to \$143 as listed by Cannonsburg District in the cost justification sheets provided for each of the charges.²⁵ Commission Staff recommends that the Commission accept the increase to the Connection/ Turn on After Hours, Re-Connection Charge After Hours, and Service Call/ Investigation Charge After Hours as the amounts are known and measurable. The cost justification information shown in Appendix A, was provided by the district and supports the requested increase. The adjustments discussed above result in the following revised Nonrecurring Charges:

Description	Current Charge	Revised Charge
Connection/Turn on	\$40.00	\$4.00
Connection/ Turn on After Hours	\$75.00	\$143.00
Meter Reread Charge	\$40.00	\$4.00
Re-Connection Charge	\$40.00	\$4.00
Re-Connection Charge After Hours	\$75.00	\$143.00
Service Call/ Investigation Charge	\$40.00	\$4.00
Service Call/ Investigation Charge After Hours	\$75.00	\$143.00
Damage to Lid or Meter Equipment	Actual Cost	Actual Cost
Return Check Charge	\$25.00	\$12.00
Meter Relocation Charge	Actual Charge	Actual Charge
Meter Test Charge	\$70.00	\$4.00
Field Collection Charge	\$25.00	\$0.00

²³ Cannonsburg District's Current Tariff, P.S.C. KY. No. 1, Original Sheet No. 9.

²⁴ Cannonsburg District's Current Tariff, P.S.C. KY. No. 1, Original Sheet No. 9.

²⁵ Cannonsburg District's Response to Staff's First Request, Item 17_NonRecurring_Charges_Cost_Justification.pdf.

Cannonsburg District provided an updated cost justification for its 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge²⁶ and its 1-Inch Meter Connection/Tap-On Charge.²⁷ Commission Staff reviewed the proposed expenses provided by Cannonsburg District and agreed with its proposed increase for both charges. Commission Staff recommends that the Commission accept Cannonsburg District's request to increase the tap-on fee from \$1,100 to \$1,646 for the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge and from \$1,275 to \$2,000 for the 1 Inch Meter Connection/Tap-On Charge.

PRO FORMA OPERATING STATEMENT

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

²⁶ Cannonsburg District's 18_3_4_inch_Tap_Cost_Justification.pdf.	Response	to	Staff's	First	Request,	Item
²⁷ Cannonsburg District's 18_1_inch_Tap_Cost_Justification.pdf.	Response	to	Staff's	First	Request,	Item

Description	Test Year	Proposed Adjustments	Commission Staff Adjustments	Total Adjustments (Ref.)	Pro Forma
Operating Revenues					
Total Retail Metered Sales	\$ 3,015,525	\$ (500,765)		\$ (500,765) A	
		(11,441)		(11,441) A	\$ 2,503,319
Other Water Revenues:					
Forfeited Discounts	45,386			0 B	45,386
Misc. Service Revenues	15,795		(230)	(230) B	15,565
Other Water Revenues (fire / sprinkler)	10,321			0 B	10,321
Total Operating Revenues	3,087,027	(512,206)	(230)	(512,436)	2,574,591
Operating Expenses					
Operation and Maintenance					
Salaries and Wages - Employees	493,021	(64,126)	64,126	0 C	
			48,567	48,567 C	
		(6,653)		(6,653) C	534,935
Salaries and Wages - Officers	30,000			0 D	30,000
Employee Pensions and Benefits - Medical	440,452	70,392	(70,392)	0 E1	
			150,260	150,260 E2	
			(128,364)	(128,364) E3	
			(186,965)	(186,965) E4	275,383
Employee Benefits (CERS)	0		186,965	186,965 E4	
		(102,430)	102,430	0 F1	
			(55,402)	(55,402) F2	
			(34,906)	(34,906) F3	
			10,090	10,090 F4	106,747
Purchased Water	950,237	(23,969)	237	(23,732) G	
			(9,384)	(9,384) G	917,121
Purchased Power	74,871	(1,889)		(1,889) H	72,982
Materials and Supplies	147,263	(15,522)		(15,522) I	131,741
Contractual Services - Acct.	8,450			0 J	8,450
Contractual Services - Legal	383			0 K	383
Contractual Services - Other	137,730			0 L	137,730
Transportation Expense	34,534			0 M	34,534
Insurance - Gen. Liability	29,764			0 N	29,764
Insurance - Worker's Comp	12,002			0 O	12,002
Miscellaneous Expense	128,227		(2,185)	(2,185) P	126,042
Total Operation and Mnt. Expenses	2,486,934	(144,197)	75,077	(69,120)	2,417,814
Depreciation	271,042	(52,908)	493	(52,415) R	218,627
Taxes Other Than Income	60,452	(18,977)	(44)	(19,021) S	41,431
Total Operating Expenses	2,818,428	(216,082)	75,526	(140,556)	2,677,872
Net Operating Income	268,599	(296,124)	(75,756)	(371,880)	(103,281)
Interest Income				0	-
Income Available to Service Debt	\$ 268,599	\$ (296,124)	\$ (75,756)	\$ (371,880)	\$ (103,281)

(A) Total Retail Metered Sales. In its application, Cannonsburg District reported a test-year amount of \$3,015,525 and proposed two adjustments to the account.²⁸ The first adjustment was to subtract \$500,765 from water sales revenue by removing

²⁸ Application, Attachment #4, Schedule of Adjusted Operations (SAO).

incorrectly recorded payments in transit from its lending agencies.²⁹ The second adjustment was to adjust test year revenue to the current billing analysis,³⁰ which was a decrease in the amount of \$11,441. Commission Staff recommends accepting the proposed adjustments to Retail Metered Sales to normalize its revenues to the amounts indicated in its billing analysis. Commission Staff also notes that embedded in the \$500,765 adjustment, there is an adjustment for Nonrecurring Charges revenue and that amount should have been added to Miscellaneous Service Revenues but was not identified. Commission Staff is concerned that Cannonsburg District's proposed \$500,765 adjustment, which equates to a 16.6 percent error in its audited revenues, was neither identified through the audit process or that Cannonsburg District did not restate its audited financial statements due to the significant materiality of the error to both revenues and operating income.

(B) Other Water Revenues. In its application, Cannonsburg District reported three separate amounts in Other Water Revenue: Forfeited Discounts of \$45,386; Miscellaneous Service Revenues of \$15,795; and Other Water Revenues of \$10,321.³¹ Cannonsburg District provided the number of instances that each nonrecurring charge was performed during the test period³² as well as the cost justification sheets.³³ Commission Staff reviewed the responses, the cost justification sheets, and the general

²⁹ Application, Attachment #4, SAO, Reference A.

³⁰ Application, Attachment #4, SAO, Reference B.

³¹ Application, Attachment #4, SAO.

³² Cannonsburg District's Response to Staff's Second Request, Item 15_No_of_Occurances,_Charges_and_Totals_Collected.pdf.

³³ Cannonsburg District's Response to Staff's First Request, Item 17_NonRecurring_Charges_Cost_Justification.pdf.

ledger. As discussed above, Commission Staff followed the Commission’s precedent in removing field labor and office/clerical labor costs.³⁴ Using this information, as well as the current nonrecurring charge amount listed in its current tariff, Commission Staff calculated Pro Forma revenue from Nonrecurring Charges of \$15,565 as shown in the table below.

Description	Occurrences	Current Charge	Revised Charge	Pro Forma
Connection/Turn on	421	\$40.00	\$4.00	\$ 1,684
Connection/ Turn on After Hours	5	\$75.00	\$143.00	715
Meter Reread Charge	0	\$40.00	\$4.00	0
Re-Connection Charge	959	\$40.00	\$4.00	3,836
Re-Connection Charge After Hours	25	\$75.00	\$143.00	3,575
Service Call/ Investigation Charge	1	\$40.00	\$4.00	4
Service Call/ Investigation Charge After Hours	4	\$75.00	\$143.00	572
Damage to Lid or Meter Equipment	43	Actual Cost	Actual Cost	2,365
Return Check Charge	109	\$25.00	\$12.00	1,308
Meter Relocation Charge	2	Actual Charge	Actual Charge	1,502
Meter Test Charge	1	\$70.00	\$4.00	4
Field Collection Charge	0	\$25.00	\$0.00	0
Pro Forma Test Year NRC Revenue				\$ 15,565
Less: Test Year NRC Revenue ()				(15,795)
Adjustment				<u>\$ (230)</u>

Commission Staff notes that, as discussed above, the \$500,765 adjustment to Total Retail Metered Sales included an embedded amount that should have been included in Miscellaneous Service Revenues, but Commission Staff was unable to determine the exact amount. Commission Staff proposes an adjustment of \$230, to bring the Miscellaneous Service Revenues reported in the test year to the Pro Forma amount indicated above.

³⁴ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020);, Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

Commission Staff reviewed the general ledger account for Other Water Revenue of \$10,321 and determined this revenue was for fire sprinklers.³⁵ Commission Staff also determined this amount was a fixed monthly payment³⁶ and adjusted the description in the Pro Forma Income Statement accordingly. Overall, Cannonsburg District's Total Other Water Revenues was \$71,272. Commission Staff recommends the Commission accept Commission Staff's adjustment to Other Water Revenue because the amount is known and measurable.

(C) Salaries and Wages - Employees. In its application, Cannonsburg District reported a test year amount of \$493,021 and proposed two adjustments to the account.³⁷ The first adjustment was to account for staffing changes, including several resignations and hiring for vacant positions, as a decrease of \$64,126.³⁸ Cannonsburg District also proposed a reduction of \$6,653 to remove the labor portion, 30 percent, of the tap-fees collected and installed by Cannonsburg District during the test year.³⁹ 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.⁴⁰ Commission Staff capitalized the costs and made a corresponding adjustment to test-year depreciation as shown in adjustment (Q). Commission Staff reviewed the

³⁵ Cannonsburg District's response to Staff's First Request, Item 1A, 2022 General Ledger, Account Number 461-600.

³⁶ There were two general ledger listings that were not fixed. One posting was for \$881 on July 31, 2023, and another posting was for \$840 on August 21, 2023, all other months reported the same amount of \$860.

³⁷ Application, Attachment #4, SAO.

³⁸ Application, Attachment #4, SAO, Reference C.

³⁹ Application, Attachment #4, SAO, Reference D.

⁴⁰ USoA, Accounting Instruction 19 and 33.

submissions by Cannonsburg District and found that Cannonsburg District's Employee Wage chart did not include two employees' pay amounts in its submitted rate study.⁴¹ Cannonsburg District confirmed it should have 12 employees when fully staffed.⁴² Commission Staff calculated the pro forma salaries to include the two employees not initially included in Cannonsburg District proposed adjustment and calculated an increase of \$48,567. Commission Staff recommends the Commission accept Commission Staff's revised adjustment to increase salary and wages by \$48,567 because the amount more accurately reflects Cannonsburg District's current staffing and wage rates. Commission Staff recommends the Commission accept Cannonsburg District's second proposed adjustment for the removal of labor expenses of \$6,653 for labor expenses related to taps.

(D) Salaries and Wages - Officers. Cannonsburg District reported \$30,000 in the test year for salaries and wages for its commissioners and did not propose any adjustments.⁴³ Cannonsburg District's Board consists of five members who are each paid \$6,000 per year.⁴⁴ Cannonsburg District provided training records for each of its commissioners⁴⁵ and Fiscal Court Minutes approving their appointments.⁴⁶ Commission

⁴¹ Cannonsburg District's Response to Staff's First Request, Item 3, Cannonsburg Rate Model, Emp Sal & Wages tab.

⁴² Cannonsburg District's Response to Staff's Second Request, Item 1.

⁴³ Application, Attachment #4, SAO.

⁴⁴ Cannonsburg District's Response to Staff's First Request, Item 4, 2022 Employee Payroll Info.

⁴⁵ Cannonsburg District's Response to Staff's First Request, Item 9b, Board Member Training.

⁴⁶ Cannonsburg District's Response to Staff's Second Request, Item 3a, Fiscal Court Minutes.

Staff recommends the Commission include commissioners' salaries in the revenue requirement because the amounts are known and measurable.

(E) Employee Benefits - Medical. Commission Staff identified costs by expense type by reviewing payroll and general ledger information that was provided by Cannonsburg District.⁴⁷ Commission Staff determined that separation of the medical and related benefits costs from retirement benefits would better facilitate discussion of the respective adjustments and reclassified \$186,965 (E4) to Employee Benefits (CERS) in the SAO and in the table below. Cannonsburg District proposed an adjustment to increase Employee Medical Benefits by \$70,392 (E1).⁴⁸ As an alternative, Commission Staff proposes two adjustments, the first is to account for the increase in benefits cost and the second is an adjustment for employer contribution rates. The first adjustment is an increase of \$150,260 (E2) for increases in Cannonsburg District's benefits cost provided in its submitted invoices as shown in the table below.⁴⁹

⁴⁷ Cannonsburg District's Response to Staff's First Request, Item 1a, 2022 General Ledger.

⁴⁸ Application, Attachment #4, SAO, Adjustment F.

⁴⁹ Cannonsburg District's Response to Staff's First Request, Item 5a, Benefits Invoice and Cannonsburg District's Response to Staff's Second Request, Item 2, Insurance Invoices.

Employee Name	Health Insurance Premiums			
	Medical Plan	Medical Premiums Total	Dental Premiums Total	Disability Premiums Total
	Employee 1	EMP	1,603.70	72.04
Employee 2	FAM	2,933.82	72.04	13.20
Employee 3	EMP	1,632.85	72.04	5.70
Employee 4	FAM	2,933.82	72.04	46.10
Employee 5	FAM	2,933.82	46.04	15.70
Employee 6	ESP	3,252.42	23.92	4.20
Employee 7	FAM	3,816.12	72.04	5.30
Employee 8	FAM	2,687.58	72.04	5.70
Employee 9	FAM	2,883.21	72.04	20.90
Employee 10	FAM	2,933.82	23.92	5.70
Employee 11	ECH	1,355.48	72.04	4.20
Employee 12	FAM	3,816.12	46.04	15.70
Pro Forma Emp. Salaries & Wages Expense		<u>32,782.76</u>	<u>716.24</u>	<u>146.60</u>
Pro Forma Monthly Amount				<u>33,645.60</u>
Pro Forma Yearly				<u>403,747</u>
Test Year (Excluding Retirement)				<u>253,487</u>
Adjustment				<u>150,260</u>

Cannonsburg District stated that it currently requires its employees to contribute 13.6 percent toward their health insurance premiums but continued its policy of not requiring an employee contribution for dental insurance.⁵⁰ In its last rate case, Cannonsburg District was advised that the Commission may make an adjustment to health insurance expenses if the actual percentage of employee cost contribution is significantly below the average Bureau of Labor Statistics employee healthcare contribution rate.⁵¹ Cannonsburg District made modest changes to its employee contributions rates, from 12 percent to 13.6 percent since its last rate case.⁵²

⁵⁰ Application, Attachment #4, SAO, Adjustment F.

⁵¹ See Case No. 2018-00376, *Application of Cannonsburg Water District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC May 13, 2019), Order at 10.

⁵² Application, Attachment #4, SAO, Adjustment F.

Cannonsburg District’s employee contributions to health insurance premiums of 13.6 percent for both single and family coverage, are lower than the average employee contributions for private industry workers of 21 percent for single coverage and 33 percent for family coverage.⁵³ Commission Staff proposes a second adjustment to decrease Cannonsburg District’s contributions to health insurance to align employee contribution rates with the national average for private industry worker reported by the Bureau of Labor Statistics as an decrease of \$128,364 to its Employee Benefits – Medical (E3) as shown in the table below. Commission Staff recommends denying Cannonsburg District’s medical benefits adjustment and accepting Commission Staff’s reclassification of Pension Benefits, as discussed in detail below, as well as Commission Staff’s medical benefit adjustment, as the amounts are known and measurable.

Description	Medical	Dental	Disability	Total
Total Cost	393,393	8,595	1,759	403,747
BLS Adjustment	(123,207)	(5,157)	-	(128,364)
Pro Forma	270,186	3,438	1,759	275,383

(F) Employee Benefits – (CERS). Commission Staff reclassified \$186,965 (E4) from Medical Benefits to Retirement as discussed above. Cannonsburg District participates in the County Employee Retirement System (CERS), which is managed by the Kentucky Public Pension Authority (KPPA).⁵⁴ Cannonsburg District proposed one decrease to the account to adjust for the new salaries and new employer contribution that

⁵³ U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Single Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t03.htm>, U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Family Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t04.htm>.

⁵⁴ Application, Attachment #4, SAO, Reference E.

took effect on July 1, 2024, of 19.71 percent, in the amount of \$102,430 (F1).⁵⁵ In the alternative, Commission Staff proposes three adjustments based on the calculation of the Pro Forma Salaries and Wages. First, Commission Staff proposes a decrease of \$55,402 (F2) for Pension and Other Post Employment Benefits (OPEB) related to GASB 68 and GASB 75 from Cannonsburg District's test year amount. In Case No. 2016-00163,⁵⁶ Commission Staff discussed in detail how reporting requirements for GASB 68 would affect a utility's income statement and balance sheet. In that proceeding, the Commission found that the annual pension expense should be equal to the amount of a district's contributions to CERS. Consistent with Commission precedent,⁵⁷ Commission Staff removed \$55,402 (F2) as an adjustment related to GASB 68 as well as GASB 75, which did not become effective until after GASB 68. Cannonsburg District implemented both during 2018.⁵⁸

Commission Staff made an adjustment of \$34,906 (F3) to account for the reduction in the CERS, contribution rate from the test year.⁵⁹ The increase in wages resulted in an increase of \$10,090 (F4) for Cannonsburg District's CERS expense. The above adjustments result in a pro forma amount of \$106,747 as shown in the table below.

⁵⁵ Application, Attachment #4, SAO, Reference E.

⁵⁶ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11–15.

⁵⁷ Case No. 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 13, 2022), Order at 11–12.

⁵⁸ Cannonsburg Water District Audited Financial Statements for the Year Ended December 31, 2018 (filed May 20, 2019), Note 10 at 16.

⁵⁹ CERS Board of Trustees December 4, 2023 Meeting, Minutes, Page 2. CERS Contribution Rate in test year was 26.79, and 19.71 in current year.

Commission Staff recommends the Commission accept Commission Staff's proposed adjustments as the amount are known and measurable.

Description	Amount
Wages Applicable to CERS Payments	\$ 541,588
Times: Percent Pension Contribution	19.71%
Total Pro Forma Pension Contribution	<u>\$ 106,747</u>

(G) Purchased Water. Cannonsburg District purchases its water from the city of Ashland.⁶⁰ In its application, Cannonsburg District reported a test-year amount of \$950,237 and proposed one adjustment.⁶¹ This adjustment was a decrease of \$23,969 for water loss above the allowed 15 percent.⁶² Commission Staff calculated purchased water cost using the information⁶³ submitted by Cannonsburg District resulting in a decrease of \$9,384 in purchased water cost.

Description	Total
Gallons Purchased	320,018
Cost	\$ 2.94
Pro Forma Cost	<u>\$ 940,853</u>
Test Year	(950,237)
Adjustment	<u>\$ (9,384)</u>

Water Loss above 15 percent was reduced to \$23,732, as shown in the table below, resulting in an increase of \$237 to the proposed disallowed water loss amount by

⁶⁰ 2023 Annual Report at 54.

⁶¹ Application, Attachment #4, SAO.

⁶² Application, Attachment #4, SAO, Reference G.

⁶³ Cannonsburg District's Response to Staff's First Request, Item 7, 2022 Gallons Purchased.

Cannonsburg District for a pro forma purchased water cost of \$917,121.⁶⁴ Commission Staff recommends the Commission accept Commission Staff's proposed adjustments as the amounts are known and measurable.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 940,853	\$ 74,871	\$ 1,015,724
Water Loss Percent	17.5224%	17.5224%	17.5224%
Total Water Loss	\$ 164,860	\$ 13,119	\$ 177,979

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 940,853	\$ 74,871	\$ 1,015,724
Water Loss in Excess of 15%	2.5224%	2.5224%	2.5224%
Disallowed Water Loss	\$ 23,732	\$ 1,889	\$ 25,621

(H) Purchased Power. In its application, Cannonsburg District reported a test year amount of \$74,871 and proposed one adjustment.⁶⁵ This adjustment was a decrease of \$1,889 for water loss above the allowed 15 percent.⁶⁶ Commission Staff reviewed Cannonsburg District's purchased power expense and agrees with its proposed adjustment as the amounts are known and measurable. Commission Staff recommends the Commission accept Cannonsburg District's proposed adjustment.

(I) Materials and Supplies. In its application, Cannonsburg District reported a test-year amount of \$147,263 and proposed one adjustment.⁶⁷ This adjustment was to remove the remaining 70 percent of tap fees, the other 30 percent being in salaries and

⁶⁴ $\$940,853 * 2.5224\% = \$23,732$. $\$940,853 - \$23,732 = 917,121$

⁶⁵ Application, Attachment #4, SAO.

⁶⁶ Application, Attachment #4, SAO, Reference G.

⁶⁷ Application, Attachment #4, SAO.

wages, in the amount of \$15,522.⁶⁸ The USoA for Class A/B Water Systems requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁶⁹ Commission Staff capitalized the costs and made a corresponding adjustment to test-year depreciation as shown in Adjustment (Q).

Commission Staff identified other possible capital expenditures in Cannonsburg District's general ledger. In response to Commission Staff's request for its classification, Cannonsburg District stated it believed the expenses were not capital.⁷⁰ In response to Staff's Fourth Request for Information which requested a more detailed explanation, Cannonsburg District included an IRS definition of capital and stated it could not provide the other information that Commission Staff requested.⁷¹ Commission Staff reviewed the invoices⁷² and found Cannonsburg District's statement that the expenditures were not capital acceptable but noted that Cannonsburg District should document better explanations going forward for why each specific item is not a capital expense as well as keep better records to properly track its assets in service. Commission Staff recommends the Commission accept Cannonsburg District's proposed adjustment as the amounts are known and reasonable.

(J) Contractual Services – Acct. Cannonsburg District reported a test-year amount of \$8,450 and proposed no adjustments to the account.⁷³ Commission Staff

⁶⁸ Application, Attachment #4, SAO, Reference D.

⁶⁹ USoA, Accounting Instruction 19 and 33.

⁷⁰ Cannonsburg District's Response to Staff's Second Request for Information, Item 4 at 5.

⁷¹ Cannonsburg District's Response to Staff's Fourth Request for Information, Item 1 at 2.

⁷² Cannonsburg District's Response to Staff's Second Request for Information, Item 4a.

⁷³ Application, Attachment #4, SAO.

reviewed Cannonsburg District's general ledger and found no issues. Commission Staff recommends accepting the proposed amount as it is known and measurable.

(K) Contractual Services - Legal. Cannonsburg District reported a test-year amount of \$383 and proposed no adjustments to the account.⁷⁴ Commission Staff reviewed Cannonsburg District's general ledger and found no issues. Commission Staff recommends accepting the proposed amount as it is known and measurable.

(L) Contractual Services - Other. Cannonsburg District reported a test-year amount of \$137,730 and proposed no adjustment to the account.⁷⁵ Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(M) Transportation Expense. Cannonsburg District proposed a test year amount of \$34,534 and proposed no adjustments to the account.⁷⁶ Commission Staff reviewed Cannonsburg District's general ledger⁷⁷ and found no additional adjustments needed to be made. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(N) Insurance – Gen. Liability. Cannonsburg District proposed a test year amount of \$29,764 and proposed no adjustments to the account.⁷⁸ Commission Staff

⁷⁴ Application, Attachment #4, SAO.

⁷⁵ Application, Attachment #4, SAO.

⁷⁶ Application, Attachment #4, SAO.

⁷⁷ Cannonsburg District's Response to Staff's First Request, Item 1a, General Ledger.

⁷⁸ Application, Attachment #4, SAO.

reviewed Cannonsburg District's general ledger⁷⁹ and submitted invoices⁸⁰ and found no additional adjustments needed to be made. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(O) Insurance – Worker's Comp. Cannonsburg District proposed a test year amount of \$12,002 and proposed no adjustments to the account.⁸¹ Commission Staff reviewed Cannonsburg District's general ledger⁸² and submitted invoices⁸³ and found no additional adjustments needed to be made. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(P) Miscellaneous Expense. Cannonsburg District reported a test year amount of \$128,227 and proposed no adjustments to the account.⁸⁴ Commission Staff identified Credit Card fees in the account and requested for an invoice to check the types of charges on the card.⁸⁵ Cannonsburg District provided an invoice that included purchases at multiple restaurants.⁸⁶ Commission Staff requested Cannonsburg District to provide all its invoices for 2022 and 2023 and to provide an explanation for the business purpose for

⁷⁹ Cannonsburg District's Response to Staff's First Request, Item 1a, General Ledger.

⁸⁰ Cannonsburg District's Response to Staff's First Request, Item 6, Insurance Invoices.

⁸¹ Application, Attachment #4, SAO.

⁸² Cannonsburg District's Response to Staff's First Request, Item 1a, General Ledger.

⁸³ Cannonsburg District's Response to Staff's First Request, Item 6, Insurance Invoices.

⁸⁴ Application, Attachment #4, SAO.

⁸⁵ Commission Staff's Second Request for Information, Item 9.

⁸⁶ Cannonsburg District's Response to Staff's Second Request for Information, Item 9b, Elan Credit Card Invoice.

the expense.⁸⁷ Cannonsburg District provided the requested invoices,⁸⁸ and Commission Staff identified \$2,185.14 in restaurant charges in 2022 as shown in the chart below. Commission Staff also reviewed 2023 spending and identified \$2,482 in restaurant charges; however, Commission Staff did not request additional documentation since it does not affect the test year.

Description	Occurrences	Amount
Giovanis Pizza	5	\$ 778.30
Texas Roadhouse	4	470.02
Bob Evans	1	294.18
Fazolis	1	128.23
Tres Hermanos	2	101.46
SQ Double Drizzle	2	100.95
Longhorn Steak	1	76.07
Crisp Dairy Treats	1	69.64
Taco Bell	3	51.14
Smoking Js Rib and Brew	1	43.16
Long John Silvers	1	32.48
Wendys	1	14.35
Chick-fil-A	1	12.13
Dairy Queen	1	7.42
McDonalds	1	5.61
Total	26	\$ 2,185.14

In its response to Commission Staff’s request to explain the business purpose of each expenditure, Cannonsburg District stated, “[c]redit card usage for restaurants are for meetings (safety, board, training), out of town travel for continuing education or training and for guys in the field when they are on an emergency repair and cannot leave the site until the customer’s water is restored.”⁸⁹ Commission Staff also requested Cannonsburg

⁸⁷ Commission Staff’s Fourth Request for Information, Item 2.

⁸⁸ Cannonsburg District’s Response to Staff’s Fourth Request, Item 2a, Credit Card Statements.

⁸⁹ Cannonsburg District’s Response to Staff’s Fourth Request, Item 2b.

District to provide its written policy for credit card usage,⁹⁰ to which Cannonsburg District responded that it did not have a written policy for the usage but gave its employees instructions on how to use it when they were given the card.⁹¹ Commission Staff recommends removing the entire \$2,185 from Cannonsburg District’s Revenue Requirement as Cannonsburg District did not provide a specific business purpose for each expenditure as requested, and Commission Staff could not determine whether each item should be included when determining the Revenue Requirement. This results in a pro forma miscellaneous expense of \$126,042. Commission Staff recommends the Commission accept Commission Staff’s proposed adjustment as the amounts are known and measurable.

(Q) Capitalization of Water Tap Expenses. As explained in Adjustments (C) and (I) above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. Commission Staff calculated the annual depreciation amount for the test year and increased Depreciation Expense by \$493 as shown below.

Asset	Original Cost	NARUC Life	Adjusted Depreciation
Tap Fees	\$ 22,175.00	45.00	\$ 493

(R) Depreciation Expense. Cannonsburg District reported a test-year amount of \$271,042 and proposed one adjustment to the account.⁹² This adjustment was a decrease in the amount of \$52,908 to bring asset lives to the midpoint set forth in the

⁹⁰ Commission Staff’s Fourth Request for Information, Item 2d.

⁹¹ Cannonsburg District’s Response to Staff’s Fourth Request, Item 2d.

⁹² Application, Attachment #4, SAO.

National Association of Regulatory Utility Commissioners (NARUC) publication titled *Depreciation Practices for Small Utilities*.⁹³ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC study. 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. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff recommends that the Commission accept Cannonsburg District's adjustment of \$52,908. Commission Staff included the amount in Adjustment (Q) to capitalize tap fees in the amount of \$493. The adjustments together result in a pro forma value of \$218,627. Commission Staff recommends the Commission accept the adjustments as the amounts are known and reasonable.

(S) Taxes Other Than Income. Cannonsburg District reported a test year of \$60,452 and proposed one adjustment to the account.⁹⁴ This adjustment was to apply the Federal Insurance Contributions Act (FICA) tax rate of 7.65 percent to pro forma salaries and wages.⁹⁵ Commission Staff recalculated the amount based on its pro forma salaries and wages discussed in Reference (C) above and proposed an additional \$44 reduction in taxes other than income, resulting in a pro forma amount of \$41,431.⁹⁶

⁹³ Application, Attachment #4, SAO, Reference H.

⁹⁴ Application, Attachment #4, SAO.

⁹⁵ Application, Attachment #4, SAO, Reference I.

⁹⁶ $\$541,588 * 7.65\% = \$41,431$.

Commission Staff recommends the Commission accept the Commission Staff's proposed adjustment as the amounts are known and measurable.

OVERALL REVENUE REQUIREMENT

The Operating Ratio methodology⁹⁷ is used when there is no basis for a rate of return determination, the cost of the utility has largely been funded through contributions, or there is little or no outstanding long-term debt. The Operating Ratio is a method to provide the utility with necessary working capital to operate effectively. Cannonsburg District proposed to use an Operating Ratio of 88 percent in its application.⁹⁸ Commission Staff is of the opinion that an operating ratio of 88 percent will allow Cannonsburg District necessary working capital and revenues to cover its reasonable operating expenses to operate and provide for reasonable equity growth. If the Commission used the Debt Service Recovery method, Cannonsburg District would only require an additional 4.22 percent⁹⁹ of revenues for its annual principal and interest payments and an additional 0.84 percent¹⁰⁰ of revenues for additional working capital, compared to its operating expenses. Commission Staff is of the opinion that the rate increase from these amounts would not produce enough revenues to keep Cannonsburg District financially stable and

⁹⁷ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

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

⁹⁸ Application, Attachment #4, Revenue Requirements Chart.

⁹⁹ Average Annual Principal and Interest Payments (\$112,951) / Operating Expenses (\$2,677,872) = 4.22 percent.

¹⁰⁰ Additional Working Capital of 20 percent (\$22,590) / Operating Expenses (\$2,677,872) = 0.84 percent.

viable, with sufficient working capital to operate effectively. Commission Staff recommends using the Operating Ratio method to calculate the revenue requirement for Cannonsburg District.

By applying the Operating Ratio method, Commission Staff found Cannonsburg District's Revenue Requirement from Rates to be \$2,988,124. A revenue increase of \$484,805, or 19.37 percent, is necessary to generate the Overall Revenue Requirement of \$3,081,846.

Description	Cannonsburg Water District	Commission Staff
Pro Forma Operating Expenses	\$ 2,601,169	\$ 2,677,872
Operating Ratio	88%	88%
Subtotal	2,955,874	3,043,036
Add: Average Annual Interest Expense	38,861	38,810
Total Revenue Requirement	2,994,735	3,081,846
Less: Other Operating Revenue	(71,502)	(71,272)
Less: Interest Income	(1,375)	(1,375)
Less: Nonutility Income	(21,075)	(21,075)
Revenue Required from Rates	2,900,783	2,988,124
Less Normalized Revenues from Water Sales	(2,503,319)	(2,503,319)
Required Revenue Increase	\$ 397,464	\$ 484,805
Percentage Increase	15.88%	19.37%

1. Average Annual Interest and Fees Payments. In its application, Cannonsburg District requested recovery of \$38,861 in average annual interest on its indebtedness.¹⁰¹ At the time of Commission Staff's review, Cannonsburg District had two outstanding KIA loans, one Rural Development loan, and one Kentucky Rural Water

¹⁰¹ Application, Attachment #4, Revenue Requirements Chart.

loan.¹⁰² Commission Staff reviewed Cannonsburg District’s submission and found that the interest payments for the Rural Development and Kentucky Rural Water loans included payments for 2023. Commission Staff disagreed with the inclusion of these payments in Cannonsburg District’s Average Annual Interest and Fees Payments, as those payments are not representative of what Cannonsburg District would be paying when the new rates go into effect. Commission Staff then calculated the five-year Average Annual Interest and Fees Payment of \$38,810 for the years 2024-2028 as shown in the table below.

Interest Payments	USDA	KRWFC	KIA B18-011	KIA C20-001	Total
2024	38,650	3,065	817	2,407	44,939
2025	37,975	953	772		39,700
2026	36,550		726		37,276
2027	35,800		679		36,479
2028	35,025		631		35,656
Total	184,000	4,018	3,625	2,407	194,050
Divide by 5 years					5
Yearly Average					<u>\$ 38,810</u>

SUPPLEMENTAL COMMISSION STAFF COMMENTS

Commission Staff has concerns about Cannonsburg District’s accounting records. During its review of the general ledger, Commission Staff experienced difficulty tracing and reviewing transactions to determine the purpose and appropriateness for inclusion in pro forma calculations. Commission Staff also has concerns that Cannonsburg District’s audited financial statements reflected a potential material error in revenues totaling \$500,765 based on statements made by Cannonsburg District. Commission Staff also has concerns about Cannonsburg District’s lack of responsiveness to Commission Staff’s

¹⁰² Deficiency Letter Response, Item 8, Bond and Loan Amortization Schedules Revised.

information requests. There were multiple instances of Cannonsburg District's responses lacking material information to provide Commission Staff clarity to make decisions about items appropriateness for inclusion in pro forma calculations. Commission Staff found that Cannonsburg District's lack of written policy for credit card usage by its employees could be problematic and recommends the district establishing a written policy concerning appropriate credit card use as well as limiting the number of individuals that are authorized to use the cards.

Finally, Commission Staff is concerned that the existing vehicle leases with Enterprise do not conform with the requirements of KRS 278.300. KRS 278.300(1) states that no utility shall issue evidences of indebtedness until it has been authorized by the Commission. KRS 278.300(8) exempts a utility obtaining prior Commission approved for evidences of indebtedness with terms of two years or less, which may be renewed for a term not exceeding six years from the date of issue of the original note. According to the invoice provided by Cannonsburg District,¹⁰³ the vehicles leased to Cannonsburg District from Enterprise have a term of 60 or 72 months, which is over the two-year exemption. Commission Staff could not find a case before the Commission approving any of the leases. Commission Staff recommends that the Commission open an investigation at the conclusion of this case to determine if the lease agreements are in violation of KRS 278.300.

¹⁰³ Cannonsburg District's Response to Staff's Second Request, Item 5a, Enterprise Invoice.

Signatures

/s/ William Pearce

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

/s/ Manuel Jerez Tamayo

Prepared by: Manuel Tamayo
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00155 DATED OCT 17 2024

* Denotes Rounding Up

Nonrecurring Charges Adjustments

	Connection/Turn on Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 hour)	\$33.47	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$8.47	\$0.00
Transportation	\$3.50	\$3.50
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$45.44	\$4.00
Current Rate	\$40.00	

	Connection/ Turn on After Hours Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (Overtime 2 hours min.)	\$138.93	\$138.93
Office Supplies	\$0.00	\$0.00
Office Labor	\$8.47	\$0.00
Transportation	\$3.50	\$3.50
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$150.90	\$143.00
Current Rate	\$75.00	

	Re-Connection Charge Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 hour)	\$33.47	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$8.47	\$0.00
Transportation	\$3.50	\$3.50
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$45.44	\$4.00

Current Rate		\$40.00
Re-Connection Charge After Hours		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$138.93	\$138.93
Office Supplies	\$0.00	\$0.00
Office Labor	\$8.47	\$0.00
Transportation	\$3.50	\$3.50
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$150.90</u>	<u>\$143.00</u>
Current Rate		\$75.00

Service Call/ Investigation Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 hour)	\$33.47	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$8.47	\$0.00
Transportation	\$3.50	\$3.50
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$45.44</u>	<u>\$4.00</u>
Current Rate		\$40.00

Service Call/ Investigation Charge After Hours		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$138.93	\$138.93
Office Supplies	\$0.00	\$0.00
Office Labor	\$8.47	\$0.00
Transportation	\$3.50	\$3.50
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$150.90</u>	<u>\$143.00</u>
Current Rate		\$75.00

Return Check Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$0.00	\$0.00

Office Labor	\$8.47	\$0.00
Transportation	\$0.00	\$0.00
Misc. (Bank Fee)	\$12.00	\$12.00
Total Revised Charge*	<u>\$20.47</u>	<u>\$12.00</u>
Current Rate	\$25.00	

	Meter Test Charge	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (2 hours)	\$92.62	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$8.47	\$0.00
Transportation	\$3.50	\$3.50
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$104.59</u>	<u>\$4.00</u>
Current Rate	\$70.00	

	Tap-On Fee 5/8-Inch x 3/4-Inch Meter	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$1,142.57	\$1,142.57
Field Labor (3 hrs. x 4 & 1 hr. x 1)	\$480.65	\$480.65
Office Supplies	\$0.00	\$0.00
Office Labor	\$8.47	\$8.47
Transportation	\$14.00	\$14.00
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$1,645.69</u>	<u>\$1,646.00</u>
Current Rate	\$1100.00	

	Tap-On Fee 1-Inch Meter	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$1,496.10	\$1,496.10
Field Labor (2 hours)	\$480.65	\$480.65
Office Supplies	\$0.00	\$0.00
Office Labor	\$8.47	\$8.47
Transportation	\$14.00	\$14.00
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$1,999.22</u>	<u>\$2,000.00</u>
Current Rate	\$1275.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00155 DATED OCT 17 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 Cannonsburg Water District. All other rates and charges not specifically mentioned herein shall remain the same.

Monthly Water Rates

3/4-Inch x 5/8-Inch Meter

First	2,000	Gallons	\$ 30.24	Min. Bill
Next	3,000	Gallons	\$ 0.011388	per Gallon
Next	15,000	Gallons	\$ 0.010469	per Gallon
Next	30,000	Gallons	\$ 0.009657	per Gallon
Next	50,000	Gallons	\$ 0.009215	per Gallon
Over	100,000	Gallons	\$ 0.008081	per Gallon

1-Inch Meter

First	5,000	Gallons	\$ 64.41	Min. Bill
Next	15,000	Gallons	\$ 0.010469	per Gallon
Next	30,000	Gallons	\$ 0.009657	per Gallon
Next	50,000	Gallons	\$ 0.009215	per Gallon
Over	100,000	Gallons	\$ 0.008081	per Gallon

2-Inch Meter

First	20,000	Gallons	\$ 221.34	Min. Bill
Next	30,000	Gallons	\$ 0.00966	per Gallon
Next	50,000	Gallons	\$ 0.00922	per Gallon
Over	100,000	Gallons	\$ 0.00808	per Gallon

3-Inch Meter

First	20,000	Gallons	\$ 221.34	Min. Bill
Next	30,000	Gallons	\$ 0.00966	per Gallon
Next	50,000	Gallons	\$ 0.00922	per Gallon
Over	100,000	Gallons	\$ 0.00808	per Gallon

6-Inch Meter

First	50,000	Gallons	\$ 510.94	Min. Bill
Next	50,000	Gallons	\$ 0.00922	per Gallon
Over	100,000	Gallons	\$ 0.00808	per Gallon

12-Inch Meter

First	100,000	Gallons	\$ 971.87	Min. Bill
Over	100,000	Gallons	\$ 0.00808	per Gallon

Wholesale

Over	100,000	Gallons	\$ 0.00549	per Gallon
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Leak Adjustment Rate			\$ 0.00544	per Gallon
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Nonrecurring Charges

Connection/Turn on	\$4.00
Connection/ Turn on After Hours	\$143.00
Meter Reread Charge	\$4.00
Re-Connection Charge	\$4.00
Re-Connection Charge After Hours	\$143.00
Service Call/ Investigation Charge	\$4.00
Service Call/ Investigation Charge After Hours	\$143.00
Damage to Lid or Meter Equipment	Actual Cost
Return Check Charge	\$12.00
Meter Relocation Charge	Actual Charge
Meter Test Charge	\$4.00

Tap-On Fee

5/8-Inch x 3/4-Inch Meter	\$1,646.00
1 Inch Meter	\$2,000.00

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