

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MUHLENBERG)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2024-00404
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On January 10, 2025,¹ Muhlenberg County Water District (Muhlenberg 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 9,² Muhlenberg District used the calendar year ended December 31, 2023, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2024-00213 that required Muhlenberg District to file an application for an adjustment of its base rates by October 31, 2025.³ Muhlenberg District's last rate increase, also filed pursuant to the alternative rate filing procedure, was in Case No. 2012-

¹ Muhlenberg District tendered its application on January 8, 2025. By letter dated January 9, 2025, the Commission rejected the application for filing deficiencies. Muhlenberg District filed a corrected customer notice on January 10, 2025. The Commission issued a deviation Order on January 22, 2025, and the application is deemed filed on January 10, 2025.

² The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

³ Case No. 2024-00213, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District* (KY. PSC, Aug. 2, 2024), Order at 7, ordering paragraph 6.

00009.⁴ Since that matter, Muhlenberg District has only adjusted its rates pursuant to purchase water adjustments.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 31, 2025. Muhlenberg District responded to two requests for information from Commission Staff (Staff).⁵

In its application, Muhlenberg District requested a total revenue requirement of \$5,482,173 to increase its annual water sales revenue by \$550,459, or 12.36 percent.⁶

On May 16, 2025, Staff issued its report (Staff's Report) summarizing its recommendations regarding Muhlenberg District's requested rate adjustment. In Staff's Report, Staff calculated that Muhlenberg District's adjusted test-year operations support a total revenue requirement of \$5,436,930, an increase of \$833,489 or 18.71 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.⁷ In the absence of a cost of service study (COSS), Staff allocated its recommended revenue increase evenly across the board of retail customers to calculate its recommended water rates.⁸

⁴ Case No. 2012-00009, *Alternative Rate Adjustment Filing of Muhlenberg County Water District*, (KY. PSC Apr. 30, 2012).

⁵ Muhlenberg District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Mar. 10, 2025, Mar. 11, 2025, and Mar. 17, 2025). Muhlenberg District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Oct. 31, 2024).

⁶ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Revenue Requirements Using Operating Ratio Method Table.

⁷ Staff's Report at 5.

⁸ Staff's Report at 5–6.

On May 27, 2025, Muhlenberg District filed its response to Staff's Report.⁹ In its written comments, Muhlenberg District stated that it did not agree with the removal of certain labor expenses from nonrecurring charges, but it did not wish to contest that adjustment.¹⁰ Additionally, Muhlenberg District concurred with the remainder of the findings in Staff's Report¹¹ and waived its right to request an informal conference or hearing.¹²

On June 20, 2025, the Commission found that, when Muhlenberg District accepted Staff's Report on May 27, 2025, the application was amended.¹³ The Commission stated that within 14 days of the date of service of this Order, Muhlenberg District shall notify its customers of the implementation of the rates calculated in the Staff's Report by publishing notice of the increase in a newspaper of general circulation in its territory or placing an insert in bills rendered to its customers.¹⁴ On July 18, 2025, Muhlenberg District provided proof of this notice.¹⁵

The case now stands submitted for a decision.

⁹ Muhlenberg District's Response to Staff Report, Read_First_Response_to_Staff_Report.pdf (filed May 27, 2025).

¹⁰ Muhlenberg District's Response to Staff Report, Read_First_Response_to_Staff_Report.pdf, Item 1.

¹¹ Muhlenberg District's Response to Staff Report, Read_First_Response_to_Staff_Report.pdf, Item 2.

¹² Muhlenberg District's Response to Staff Report, Read_First_Response_to_Staff_Report.pdf, Item 3.

¹³ Order (Ky. PSC Jun. 20, 2025) at 2. The required re-notice was a result of 807 KAR 5:076, Section 11(3)(f) as the recommended increase in rates produced a total increase in revenues that exceeds 110 percent of the total increase in revenues that the applicant's proposed rates.

¹⁴ Order (Ky. PSC Jun. 20, 2025) at 2.

¹⁵ Muhlenberg District's Affidavit of Publication of Customer Notice (filed July 18, 2025).

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."¹⁶ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Muhlenberg District 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 5,678 residential customers, 319 commercial customers, and 10 industrial customers that reside in Muhlenberg County, Kentucky.¹⁷

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2023 Annual Report, Muhlenberg District reported a water loss of 17.5485 percent.¹⁸ 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

¹⁶ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

¹⁷ *Annual Report of Muhlenberg County Water District, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 12 and 49.

¹⁸ 2023 Annual Report at 57.

in its own operations. The table below shows that the 2023 total annual cost of water loss to Muhlenberg District is \$361,653, while the annual cost of water loss in excess of 15 percent is \$52,522.

Total Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 1,941,668	\$ 119,207	\$ 7,609	\$ 2,068,484
Water Loss Percent	17.5485%	17.5485%	17.5485%	17.5485%
Total Water Loss	<u>\$ 340,734</u>	<u>\$ 20,919</u>	<u>\$ 1,335</u>	<u>\$ 361,653</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 1,941,668	\$ 119,207	\$ 7,609	\$ 2,060,875
Water Loss in Excess of 15%	2.5485%	2.5485%	2.5485%	2.5485%
Disallowed Water Loss	<u>\$ 49,484</u>	<u>\$ 3,038</u>	<u>\$ 194</u>	<u>\$ 52,522</u>

TEST PERIOD

The calendar year ended December 31, 2023, was used as the test year to determine the reasonableness of Muhlenberg District's proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

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

Description	2023 Test Year	Total Proposed Adjustments	Commission Staff's Pro Forma
Total Operating Revenues	\$ 4,241,359	353,951	4,595,310
Total Operating Expenses ()	(4,512,395)	(260,962)	(4,773,357)
Net Operating Income	(271,036)	92,989	(178,047)
Interest Income	8,131		8,131
Income Available to Service Debt	<u>\$ (262,905)</u>	<u>\$ 92,989</u>	<u>\$ (169,916)</u>

REVIEW OF STAFF'S RECOMMENDATIONS

Muhlenberg District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In Staff's Report, Staff recommended additional adjustments. As noted above, Muhlenberg District objected to the removal of certain labor expenses from non-recurring charges set forth in Staff's Report but did not wish to contest that adjustment. The Commission accepts the recommendations contained in Staff's Report with no further modifications. The following is the Commission's complete pro forma:

Description	Test Year	Total Adjustments	Commission Staff's Pro Forma	Commission's Adjustments	Pro Forma
Operating Revenues					
Metered Retail Sales	\$ 4,095,760	\$ 359,246	\$ 4,455,006	\$ -	\$ 4,455,006
Forfeited Discounts	68,761	-	68,761	-	68,761
Miscellaneous Service Revenues	76,838	9,952			
		(15,247)	71,543	-	71,543
Other Water Revenues	-	-	-		
Total Operating Revenues	4,241,359	353,951	4,595,310	-	4,595,310
Operation and Maintenance					
Salaries and Wages - Employees	956,992	79,067			
		(7,011)	1,029,048	-	1,029,048
Salaries and Wages - Officers	18,000	-	18,000	-	18,000
Employee Benefits	415,986	(100,522)	315,464	-	315,464
Employee Pensions	129,182	-			
		110,688			
		(56,415)			
		(774)	182,681	-	182,681
Purchased Water	1,609,028	332,640			
		(49,484)	1,892,184	-	1,892,184
Purchased Power	119,207	(3,038)	116,169	-	116,169
Chemicals	7,609	(194)	7,415	-	7,415
Materials and Supplies	191,565	-			
		(16,359)	175,206	-	175,206
Contractual Services	96,736	12,288	109,024	-	109,024
Rental of Building/ Real Property	2,511	-	2,511	-	2,511
Transportation Expense	72,286	-	72,286	-	72,286
Insurance - General Liability & Work	16,471	-	16,471	-	16,471
Insurance - Other	60,480	-	60,480	-	60,480
Advertising	2,604	-	2,604	-	2,604
Water Resource Conservation Expense	24,800	-	24,800	-	24,800
Miscellaneous	185,161	-	185,161	-	185,161
Total	3,908,618	300,886	4,209,504	-	4,209,504
Depreciation Expense	523,144	(56,570)			
		550	467,124	-	467,124
Amortization Expense	-	9,037	9,037	-	9,037
Taxes Other Than Income	80,633	7,059	87,692	-	87,692
Total Operating Expenses	4,512,395	260,962	4,773,357	-	4,773,357
Net Operating Income	(271,036)	92,989	(178,047)	-	(178,047)
Interest Income	8,131	-	8,131	-	8,131
Income Available to Service Debt	\$ (262,905)	\$ 92,989	\$ (169,916)	\$ -	\$ (169,916)

Total Sales of Water. Muhlenberg District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application.¹⁹ Muhlenberg District reported total metered water sales revenue of \$4,095,760 for the test year in its Schedule of Adjusted Operations.²⁰ Muhlenberg District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$4,455,006 and proposed an adjustment to increase test-year water sales revenue by \$359,246 to reflect the revenues of \$325,715 from the recent purchased water adjustment²¹ and \$33,531 in other adjustments based on current water rates.²² Staff recommended that the Commission accept the adjustment because the amount met the ratemaking criteria of being known and measurable.²³

The Commission finds that Muhlenberg District's proposed adjustments are reasonable and should be approved. This adjustment reflects verifiable usage and revenue data that were evaluated and normalized using the information provided in the record.

¹⁹ Application, ARF_Application.pdf, Attachment 5, Current Billing Analysis – Current Usage & Existing Rates.

²⁰ Application, ARF_Application.pdf, Attachment 4, Statement of Adjusted Operations.

²¹ Case No. 2024-00213, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District* (Ky. PSC, Aug. 2, 2024).

²² Application, ARF_Application.pdf, Attachment 5, Current Billing Analysis – Current Usage & Existing Rates.

²³ Staff's Report at 10.

Miscellaneous Service Revenues. In the application, Muhlenberg District reported \$76,838 for Miscellaneous Service Revenues.²⁴ In the application, Miscellaneous Service Revenues included Materials, Pipe, Parts Sold, Miscellaneous Revenues, 911 Surcharges, and Cash/Over which is unpaid credit card transactions.²⁵ A summary of miscellaneous service revenues by component and the related adjustments is presented in a table in this section below.

Nonrecurring Charges - In Staff's Report, Staff followed the Commission's precedent in removing field labor and office/clerical labor costs associated with labor performed by current employees during regular business hours as duplicative²⁶ and determined that pro forma nonrecurring charges should be \$42,687. The adjustment to nonrecurring charges results in an increase of \$9,952 to Miscellaneous Service Revenues as shown below. Staff recommended the Commission accept Staff's adjustment to Miscellaneous Service Revenues because the amount met the ratemaking criteria of being known and measurable.²⁷

²⁴ Application, ARF_Application.pdf, Attachment 4, Statement of Adjusted Operations.

²⁵ Muhlenberg District's Response to Staff's First Request, Item 1c, Item_1c_Cross_Reference.xlsx, Rows 17 thru 24.

²⁶ 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).

²⁷ Staff's Report at 11.

Charge	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Connection/Turn-on Charge	470	\$15.00	\$52.00	\$17,390	\$24,440
Field Collection Charge	0	\$35.00	\$37.00	0	0
Meter Relocation Charge	0	Actual Cost	Actual Cost	0	0
Reconnection Charge	481	\$50.00	\$37.00	(6,253)	17,797
Returned Check Charge	57	\$25.00	\$4.00	(1,197)	228
Service Call/Investigation	6	\$35.00	\$37.00	12	222
Meter Test Request	0	\$75.00	\$38.00	0	0
Pro Forma Test Year NRC Revenue				<u>\$9,952</u>	<u>\$42,687</u>
Less: Test Year NRC Revenue ()					<u>(32,735)</u>
Adjustment					<u>\$9,952</u>

The Commission finds that the Staff's recommendation should be approved, as labor expenses resulting from work performed during normal business hours should not be recovered through nonrecurring charges because those expenses are otherwise recovered in rates. To be considered reasonable, charges generally must be directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a nonrecurring charge for service provided by current employees during normal working hours. Thus, the Commission finds that Staff's recommendation is reasonable, the revised nonrecurring charges as described in Appendix A to be reasonable, and that Muhlenberg District's Miscellaneous Service Revenues should be increased by \$9,952, the incremental cost related to the service.

Nonrecurring Revenues – Miscellaneous Service Revenue components of \$1,607 for Material, Pipes, Parts Sold²⁸ and \$13,640 for Cash/Over,²⁹ which are unpaid credit card transactions, are considered unusual transactions, not expected to reoccur and,

²⁸ Muhlenberg District's Response to Staff's First Request, Item 1c, Item_1c_Cross_Reference.xlsx, Rows 19.

²⁹ Muhlenberg District's Response to Staff's First Request, Item 1c, Item_1c_Cross_Reference.xlsx, Rows 21.

therefore, should be removed from the test year. Staff recommended the Commission accept Staff's adjustment to decrease Miscellaneous Service Revenues by \$15,247.³⁰ The net effect of the above adjustments results in a pro forma Miscellaneous Service Revenues of \$71,543, as shown in the following table, which is a net decrease of \$5,295 from Muhlenberg District's proposed pro forma amount.

Description	Test Year	Commission Staff Adjustment	Pro Forma
Non-Recurring Charges	\$ 32,735	\$ 9,952	\$ 42,687
Credit Card Processing Income	21,678		21,678
Materials, Pipes, Parts Sold	1,607	(1,607)	0
Miscellaneous	3,513		3,513
Cash/Over	13,640	(13,640)	(0)
911 Fee	3,666		3,666
Total	<u>\$ 76,838</u>	<u>\$ (5,295)</u>	<u>\$ 71,543</u>

The Commission finds that Staff's recommended adjustment is reasonable and should be accepted. Muhlenberg District's Miscellaneous Service Revenues should be decreased by \$5,295 because unusual transactions not expected to reoccur are not indicative of standard utility operations and therefore not included in the Pro Forma – Miscellaneous Service Revenues amount.

Salaries and Wages - Employees. In its application, Muhlenberg District proposed an adjustment to decrease Salaries and Wages – Employees by \$38,555³¹ to reflect

³⁰ Staff's Report at 11.

³¹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

changes in wage rates.³² Muhlenberg District provided the test year employee list,³³ test-year total hours worked,³⁴ current wage rates,³⁵ and a current employee list.³⁶ Muhlenberg District considers full employment as 14 full-time employees and three part-time/seasonal employees.³⁷ Staff normalized the full-time employees' regular hours to 2,080.³⁸ In addition, employees received an increase in wages during 2024 and 2025.³⁹ Currently, the three part-time/seasonal positions are vacant, Muhlenberg District's intent is to rehire these positions as soon as the district gets approved for a rate increase.⁴⁰ The seasonal employees work for nine months a year; therefore, Staff normalized their hours worked at 1,560.⁴¹ The housekeeping position works ten hours a week for a normalized 520 hours annually.⁴²

³² Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment B.

³³ Muhlenberg District's Response to Staff's First Request, Item 6, 6_Employee_Hours_Wages_and_Benefits.xlsx, 2023 Tab, Column A.

³⁴ Muhlenberg District's Response to Staff's First Request, Item 6, 6_Employee_Hours_Wages_and_Benefits.xlsx, 2023 Tab,

³⁵ Muhlenberg District's Response to Staff's Second Request, Item 3a, 3a_Positions_Titles_and_Pay.xlsx.

³⁶ Muhlenberg District's Response to Staff's Second Request, Item 3a, 3a_Positions_Titles_and_Pay.xlsx.

³⁷ Muhlenberg District's Response to Staff's Second Request, Item 3c.

³⁸ 8 hours a day x 5 days a week x 52 weeks a year = 2,080 hours a year.

³⁹ Muhlenberg District's Response to Staff's Second Request, Item 3a, 3a_Positions_Titles_and_Pay.xlsx.

⁴⁰ Muhlenberg District's Response to Staff's Second Request, Item 3b.

⁴¹ 2,080 full-time annual Hours x (9/12) = 1,560 Hours.

⁴² Muhlenberg District's Response to Staff's Second Request, Item 3b.

Additionally, Muhlenberg District provides several other methods to compensate employees aside from Salaries and Wages. First, Muhlenberg District provides an annual boot allowance of \$150 paid at the beginning of each year so that employees can purchase a new pair of boots each year.⁴³ Since the boot allowance is to compensate employees for the purchase of boots generally used in the provision of utility services, Staff agreed with including the boot allowance in Pro Forma Salaries and Wages – Employees.⁴⁴

Next, Muhlenberg District provided an excerpt from its employee handbook explaining that “at the end of each quarter if there have been no accidents each employee will be paid a safety bonus of \$150.”⁴⁵ Since the bonus is performance based relying on safety records, Staff agreed with including the Safety Bonus in Pro Forma Salaries and Wages – Employees. Additionally, Muhlenberg District provides a truck allowance, which is \$15 per week for the use of personal vehicles by field employees subject to being on-call.⁴⁶

During the test year, Muhlenberg District expanded the truck allowance to include all field employees, subject to being on call.⁴⁷ Staff agreed with including the truck allowance for on-call employees in Pro Forma Salaries and Wages – Employees.⁴⁸

⁴³ Muhlenberg District's Response to Staff's Second Request, Item 2a.

⁴⁴ Staff's Report at 13.

⁴⁵ Muhlenberg District's Response to Staff's Second Request, Item 2a, 2a_Safety_Bonus.pdf.

⁴⁶ Additional information on Truck Allowance included in wages (filed Apr. 16, 2025), Read_First_Additional_Information_Truck_Allowance.pdf.

⁴⁷ Additional information on Truck Allowance included in wages (filed Apr. 16, 2025), Read_First_Additional_Information_Truck_Allowance.pdf.

⁴⁸ Staff's Report at 15.

Muhlenberg District also provides a Sample Testing pay. Sample testing pay is paid to the two superintendents every weekend day and holiday.⁴⁹ Since sample testing is mandatory from the Division of Water and specific site(s) must be tested for chlorine residual daily, even the weekends and holidays, the Superintendents are performing work during their days off, when they must test for chlorine on these days.⁵⁰ Staff agreed with including the sample testing pay as a direct form of compensation.⁵¹ Muhlenberg District also provides on-call pay to field employees.⁵² One worker takes the on-call phone each week and answers emergency call after hours.⁵³ In addition, the General Manager and Superintendent are considered to always be on call.⁵⁴ Since the on-call pay is compensation for an employee to be available to work in case of emergencies, Staff agreed with including the on-call pay as a direct form of compensation.⁵⁵

With all the compensation forms described above, in Staff's Report, Staff calculated a Total Salaries and Wages – Employees of \$1,036,059, which is \$79,067 more than the test-year Salaries and Wages – Employee of \$956,992, as shown in the table below.

⁴⁹ Muhlenberg District's Response to Staff's Second Request, Item 2d, 2d_Sample_Testing_Pay.pdf.

⁵⁰ Muhlenberg District's Response to Staff's Second Request, Item 2d, 2d_Sample_Testing_Pay.pdf.

⁵¹ Staff's Report at 14.

⁵² Muhlenberg District's Response to Staff's Second Request, Item 2c.

⁵³ Muhlenberg District's Response to Staff's Second Request, Item 2c, 2c_Employee_Handbook_Extact_On_Call_Pay.pdf.

⁵⁴ Muhlenberg District's Response to Staff's Second Request, Item 2c, 2c_Employee_Handbook_Extact_On_Call_Pay.pdf.

⁵⁵ Staff's Report at 14.

Employee #	Employee Position	Normalized Regular Hours	Pro Forma Wage Rate	Pro Forma Regular Wages	Pro Forma Overtime Hours	Pro Forma Overtime Wages	Boot Allowance	Safety Bonus	Truck Allowance	Sample Testing	On Call Pay	Pro Forma Wages
Employee 1	General Manager	2,080	\$1,524/ Week	\$ 79,248	\$ 216	-	\$ 173.71	\$ 695	\$ 780	-	\$ 520	\$ 81,417
Employee 2	Superintendent	2,080	1,366/ Week	71,011	458	-	174	695	780	\$ 7,050	4,240	83,950
Employee 3	Asst. Superintendent	2,080	1,388/ Week	72,155	502	-	174	695	780	7,050	4,240	85,094
Employee 4	Maintenance Foreman	2,080	29.18	60,694	200	\$ 8,754	174	695	780	-	1,800	72,897
Employee 5	Telemetry	2,080	27.73	57,678	223	9,276	174	695	780	-	3,020	71,623
Employee 6	Operations	2,080	27.17	56,514	168	6,847	174	695	780	-	1,320	66,329
Employee 7	Operations	2,080	27.10	56,368	149	6,057	174	695	780	-	1,640	65,713
Employee 8	Operations	2,080	26.29	54,683	-	-	174	695	780	-	1,380	57,712
Employee 9	Operations	2,080	26.29	54,683	291	11,476	174	695	780	-	1,700	69,507
Employee 10	Operations	2,080	26.29	54,683	223	8,794	174	695	780	-	1,380	66,506
Employee 11	Office Manager	2,080	27.16	56,493	207	8,433	-	695	-	-	-	65,621
Employee 12	Asst Office Manager	2,080	25.80	53,664	-	-	-	695	-	-	-	54,359
Employee 13	Clerical	2,080	25.00	52,000	115	4,313	174	695	-	-	-	57,181
Employee 14	Clerical	2,080	25.00	52,000	58	2,175	174	695	-	-	-	55,044
Employee 15	Housekeeping	520	17.08	8,882	-	-	-	-	-	-	-	8,882
Employee 16	Seasonal	1,560	23.79	37,112	-	-	-	-	-	-	-	37,112
Employee 17	Seasonal	1,560	23.79	37,112	-	-	-	-	-	-	-	37,112
Total		<u>32,760</u>		<u>\$ 914,982</u>	<u>\$ 2,810</u>	<u>\$ 66,124</u>	<u>\$ 2,085</u>	<u>\$9,728</u>	<u>\$ 7,800</u>	<u>\$ 14,100</u>	<u>\$ 21,240</u>	<u>1,036,059</u>
Test Year Salaries and Wages - Employees ()												(956,992)
Staff's Adjustment												79,067
Muhlenberg District's Adjustment												38,555
Difference between Muhlenberg District's and Staff's Adjustments												<u>\$ 117,622</u>

Staff recommended the Commission accept Staff's adjustment of a \$79,067 increase to Salaries and Wages – Employees, as it is known and measurable change because it reflects the normalized and test year hours at current wage rates with current employees.⁵⁶

The Commission finds that Staff's recommended adjustment should be accepted. Muhlenberg District's Salaries and Wages- Employees should be increased by \$79,067 because the adjustment to Salaries and Wages – Employees described above is a known and measurable change reflected in the normalization of test year hours at current wages. The Commission notes that evidence in the record supported the inclusion of the bonuses as well as the on call pay, as it was work perform outside of business hours.

⁵⁶ Staff's Report at 12–14.

Expenses Related to Meter Installations. During the test year, Muhlenberg District reported \$24,700 to Tap On Fees.⁵⁷ 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.⁵⁸ During the test year, Muhlenberg District installed 41 new water connections.⁵⁹ Using the current rate of \$570 per connection, Staff calculated \$23,370 of Tap Fees expenses to be capitalized.⁶⁰ Therefore, Staff calculated a decrease to Salaries and Wages – Employees Expense of \$7,011 and Materials and Supplies of \$16,359, as shown in the following table.

Description	Salaries and Wages	Materials and Supplies
Tap Fees Collected	\$ 23,370	\$ 23,370
Allocated Percentage	30%	70%
Commission Staff's Adjustment	<u>\$ (7,011)</u>	<u>\$ (16,359)</u>

Additionally, Muhlenberg District confirmed that it did not capitalize the water tap labor or the material costs.⁶¹ Therefore, Staff capitalized the labor, materials and supplies costs, and made a corresponding increase to test-year depreciation of \$550, as shown in the Depreciation – Capitalization of Water Tap Labor Adjustment.

Staff recommended the Commission accept Muhlenberg District's proposed adjustments to decrease Salaries and Wages – Employees by \$7,011 and decrease

⁵⁷ Muhlenberg District's Response to Staff's First Request, Item 1b, 1b_Trial_Balance_2023.xlsx, Account 474-01 Tap On Fees.

⁵⁸ USoA, Accounting Instruction 19 and 33.

⁵⁹ Muhlenberg District's Response to Staff's First Request, Item 18a.

⁶⁰ Staff's Report at 15–16.

⁶¹ Muhlenberg District's Response to Staff's First Request, Item 18b and 18c.

Materials and Supplies by \$16,359 because it reflects the proper accounting for water connection expenses according to the USoA.⁶²

The Commission finds that Muhlenberg District's adjustment is reasonable and should be accepted. Muhlenberg District's Salaries and Wages – Employees should be reduced by \$7,011, and Materials and Supplies should be reduced by \$16,359 with a corresponding adjustment to test-year depreciation as shown in Capitalization of Water Tap Labor because the USoA requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives.

Employee Benefits. In its application, Muhlenberg District proposed an adjustment to decrease Employee Pensions and Benefits by \$129,917⁶³ to reflect current Commission precedent regarding employer contributions to medical and dental insurance benefits, aligning those benefits to the average benefit amounts found in the utilities area according closer to the averages set forth by the Bureau of Labor Statistics unless other evidence of record supports a different finding.⁶⁴ Muhlenberg District provided complete health benefits to all employees, at no cost to the employee, for the test year with Anthem.⁶⁵ In addition, Muhlenberg District provided full vision through Anthem and dental coverage through Paramount Dental with no charge to the employee.⁶⁶

⁶² Staff's Report at 15–16.

⁶³ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

⁶⁴ Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment C.

⁶⁵ Muhlenberg District's Response to Staff's First Request, Item 4.

⁶⁶ Muhlenberg District's Response to Staff's First Request, Item 4.

Staff agreed Muhlenberg District's methodology to account for employee contribution percent is consistent with precedent,⁶⁷ but calculated a different amount.⁶⁸ In the application, Muhlenberg District utilized the contribution levels recommended in 2022 contribution analysis for single⁶⁹ and family,⁷⁰ rather the most recent 2024 contribution levels. Staff calculated Muhlenberg District's Employer contribution for single health insurance plan premiums contribution expense at 80 percent,⁷¹ and family insurance plan premiums contribution expense at 68 percent,⁷² as shown in the table below. In addition, Staff calculated Muhlenberg District's contribution to dental insurance at 60 percent.⁷³ Muhlenberg District provided the most recent copy of its health insurance,⁷⁴ dental Insurance,⁷⁵ and life insurance⁷⁶ invoices. The invoices show 14

⁶⁷ 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.

⁶⁸ Staff's Report at 17.

⁶⁹ Bureau of Labor Statistics, Healthcare Benefits, March 2022, Table 3, private industry workers. ([Employee Benefits in the United States - March 2022](#)).

⁷⁰ Bureau of Labor Statistics, Healthcare Benefits, March 2022, Table 4, private industry workers. ([Employee Benefits in the United States - March 2022](#)).

⁷¹ Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁷² Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁷³ See Case No. 2017-00263 *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and *The Willis Benchmarking Survey*, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

⁷⁴ Muhlenberg District's Response to Staff's First Request, Item 5, 5_Medical.pdf.

⁷⁵ Muhlenberg District's Response to Staff's First Request, Item 5, 5_Dental.pdf.

⁷⁶ Muhlenberg District's Response to Staff's First Request, Item 5, 5_Life.pdf.

employees currently receive insurance through Muhlenberg District.⁷⁷ Accordingly, utilizing the most recent invoice amounts, Staff calculated a decreased to Employee Benefits - Insurance of \$100,522, which is \$29,395 less than the \$129,917 decrease proposed by Muhlenberg District, as shown below.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Medical Insurance - Employee Only	1	\$ 1,045	20%	\$ (209)	\$ 836
Medical Insurance - Employee Spouse	2	4,389	32%	(1,404)	2,984
Medical Insurance - Employee Child	2	3,762	32%	(1,204)	2,558
Medical Insurance - Family	9	27,272	32%	(8,727)	18,545
Dental Insurance	14	1,316	60%	(789)	526
Life Insurance	14	839	0%	-	839
Total Monthly Pro Forma Premium		38,622		(12,333)	26,289
Multiplied by: 12 Months		12		12	12
Total Annual Health Insurance Premium		<u>\$ 463,466</u>		<u>(148,001)</u>	315,464
Less: Test Year Insurance Premium ()					(415,986)
Commission Staff's Proposed Adjustment					(100,522)
Less: Muhlenberg District's Proposed Adjustment ()					129,917
Difference between Muhlenberg District's and Commission Staff's Adjustments					<u>\$ 29,395</u>

Staff recommended the Commission accept Staff's adjustment of a \$100,522 decrease to Employee Benefits to reflect the change in insurance premiums and the reduction of employer contributions.⁷⁸ The adjustment reflects the average amount based on national statistical information⁷⁹ as well as the fact that Muhlenberg District did not provide sufficient evidence that 100 percent employer contribution was necessary to retain employees or normal for employers in the area.

⁷⁷ Muhlenberg District's Response to Staff's First Request, Item 5, 5_Medical.pdf.

⁷⁸ Staff's Report at 17–19.

⁷⁹ Bureau of Labor Statistics, Healthcare Benefits, March 2022, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>). Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>). And the Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

The Commission finds Staff's recommended adjustment should be accepted. 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.⁸⁰ Muhlenberg District's Employee Benefits should be decreased by \$100,522, because it is a known and measurable change consistent with precedent regarding the evaluation of employees' total compensation packages for market and geographic competitiveness that ensure the development of a fair, just and reasonable rate.⁸¹ In addition, it reflects the current expenses based on invoices contained in the record.

Employee Pensions (CERS). Muhlenberg District participates in the County Employee Retirement System (CERS), which is managed by the Kentucky Public Pension Authority (KPPA).⁸² Muhlenberg District proposed one adjustment to decrease the Employee Pensions and Benefits to reflect the reduced pension contribution rate that took effect on July 1, 2024, of 19.71 percent, in the amount of \$47,141.⁸³ Staff calculated three adjustments based on the calculation of the pro forma Salaries and Wages – Employees as well as contribution percentage, and GASB 68 and 75 accounting.

⁸⁰ 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).

⁸¹ Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019) at 8–12.

⁸² Muhlenberg District's Response to Staff's First Request, Item 5, 5_Retirement.pdf.

⁸³ Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment D.

First, Staff calculated an increase of \$110,668 for Pension and Other Post Employment Benefits (OPEB) related to GASB 68 and GASB 75 from Muhlenberg District's test year amount.⁸⁴ In Case No. 2016-00163,⁸⁵ Staff discussed 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,⁸⁶ Staff added \$110,688 as an adjustment related to GASB 68 as well as GASB 75, which did not become effective until after GASB 68.

Staff made a decrease of \$56,415 to account for the reduction in the CERS contribution rate from the test year.⁸⁷ The decrease in contributable wages resulted in a decrease of \$774 for Muhlenberg District's CERS expense. The above adjustments resulted in a pro forma amount of \$182,681, as shown in the table below. Staff recommended the Commission accept Staff's proposed adjustments as the amounts are known and measurable based on current Salaries and Wages at current contribution levels.⁸⁸

⁸⁴ Staff's Report 19–21.

⁸⁵ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11–15.

⁸⁶ 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.

⁸⁷ CERS Board of Trustees December 4, 2023, Meeting, Minutes, Page 2. CERS Contribution Rate in test year was 26.79, and 19.71 in 2024.

⁸⁸ Staff's Report at 19–21.

Description	Pro Forma
Wages Applicable to CERS Payments	\$ 952,953
Multiplied by: Average Contribution Rate	19.17%
Total Pension Contribution Contributions	182,681

The Commission finds Staff's recommended adjustments are reasonable and should be accepted. Muhlenberg District's Employee Pensions should be increased by a net of \$53,499⁸⁹ because the modified contribution expense accounts for the normalization of Salaries and Wages, the corresponding update to the required contribution percent by CERS, and this conforms with general accounting principles.

Purchased Water. In its application, Muhlenberg District proposed an adjustment to increase its Purchased Water Expense by \$325,715⁹⁰ to reflect the recent purchased water adjustment.⁹¹ Muhlenberg District purchases water from Todd County Water District (Todd District) and the City of Central City (Central City).⁹² Subsequent to the test year, Muhlenberg District filed a Purchased Water Adjustment, effective July 1, 2024 to reflect Central City increasing its wholesale rate to Muhlenberg District to \$0.00457 per gallon.⁹³ Todd District also implemented an increase in its wholesale rates, increasing Muhlenberg District's cost of water to \$0.00591 per gallon.⁹⁴ Muhlenberg District provided

⁸⁹ \$110,668 increase for GASB 68 & 75 + \$56,415 decrease for the change in contribution rate + \$774 decrease for the change in contributable wages = \$53,499 Net change in Pensions.

⁹⁰ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

⁹¹ Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment F.

⁹² 2023 Annual report at 54.

⁹³ Case No, 2024-00213, Application, Exhibit A, Notice.

⁹⁴ Case No. 2025-00004, *Electronic Purchased Water Adjustment Filing of Todd County Water District* (Ky. PSC Feb. 13, 2025).

the current rate charged by each of its water vendors,⁹⁵ as well as the gallons purchased from each vendor throughout the test year.⁹⁶ Staff calculated Purchased Water Expense using the test-year gallons purchased, and the current rates resulting in a pro forma Purchased Water Expense of \$1,941,668, as shown in the following table. Staff calculated an increase to Purchased Water Expense of \$332,640, which is \$6,925 more than proposed by Muhlenberg District.

Month	Todd County		Central City		Total
	Gallons	Cost	Gallons	Cost	
January	228,600	\$ 0.00591	35,565,300	\$ 0.00457	\$ 163,884
February	180,400	0.00591	38,120,800	0.00457	175,278
March	219,700	0.00591	32,163,900	0.00457	148,287
April	197,700	0.00591	35,016,990	0.00457	161,196
May	275,100	0.00591	31,032,300	0.00457	143,443
June	146,200	0.00591	38,079,100	0.00457	174,886
July	286,500	0.00591	37,350,300	0.00457	172,384
August	283,600	0.00591	37,207,900	0.00457	171,716
September	235,400	0.00591	34,785,300	0.00457	160,360
October	207,000	0.00591	32,573,000	0.00457	150,082
November	176,200	0.00591	36,237,400	0.00457	166,646
December	360,800	0.00591	33,122,900	0.00457	153,504
Total	<u>2,797,200</u>		<u>421,255,190</u>		<u>1,941,668</u>
Test Year Purchased Water ()					(1,609,028)
Commission Staff's Adjustment					332,640
Muhlenberg District's Proposed Adjustment ()					(325,715)
Difference					<u>\$ 6,925</u>

Staff recommended the Commission accept Staff's adjustment of a \$332,640 increase to Purchase Water Expense,⁹⁷ as this is a known and measurable change that

⁹⁵ Muhlenberg District's Response to Staff's First Request, Item 20.

⁹⁶ Muhlenberg District's Response to Staff's First Request, Item 19, 19_Water_Purchased_Corrected.xlsx.

⁹⁷ Staff's Report at 21–22.

reflects the normalization of water purchased during the test year to current rates charged.

The Commission finds that Staff's recommended adjustments are reasonable and should be accepted. Muhlenberg District's Purchased Water Expense should be increased by \$332,640 given Central City and Todd District increased their water rates, as this is known and measurable change that reflects the normalization of water purchased during the test year to current rates charges.

Excess Water Loss. In its application, Muhlenberg District proposed adjustments to decrease Purchased Water Expense by \$49,308,⁹⁸ Purchased Power Expense by \$3,038⁹⁹ and Chemicals Expense by \$194.¹⁰⁰ The adjustments are to reflect the expense for water loss in excess of 15 percent.¹⁰¹ During the test year, Muhlenberg District reported water loss of 17.5485 percent.¹⁰² As noted earlier in the report, Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included for ratemaking purposes.¹⁰³ Muhlenberg District proposed

⁹⁸ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

⁹⁹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

¹⁰⁰ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

¹⁰¹ Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment G.

¹⁰² 2023 Annual Water Report at 57.

¹⁰³ 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).

to reduce Purchased Water Expense by \$49,308 and Staff disagreed with the calculation, as discussed in the Purchased Water section above, Staff determined a Purchased Water Expense of \$1,941,668. Therefore, Staff decreased Purchased Water Expense by \$49,484, which is \$176 more than proposed by Muhlenberg District, as shown in the following table. Additionally, Muhlenberg District proposed to reduce Purchased Power Expense by \$3,038 and Chemical Expense by \$194, which Staff agreed with, as shown in following table.

Description	Purchased Water	Purchased Power	Chemicals	Total
Adjusted Costs	\$ 1,941,668	\$ 119,207	\$ 7,609	\$ 2,068,484
Water Loss in Excess of 15% ()	-2.5485%	-2.5485%	-2.5485%	-2.5485%
Commission Staff's Adjustment	(49,484)	(3,038)	(194)	(52,716)
Muhlenberg District's Proposed Adjustment	49,308	3,038	194	52,540
Difference between Muhlenberg District's and Commission Staff's Adjustments	\$ (176)	\$ -	\$ -	\$ (176)

Staff recommended the Commission accept Staff's adjustment of a \$49,484 decrease to Purchase Water Expense,¹⁰⁴ as well as Muhlenberg District's proposed adjustment of a \$3,038 decrease to Purchased Power Expense, and a \$194 decrease to Chemical Expense, since the amounts reflect the limit of costs related to excess water loss to 15 percent.¹⁰⁵

The Commission finds Staff's adjustments are reasonable and should be accepted. Muhlenberg District's Purchased Water expense should be decreased by \$49,484; its Purchased Power expense should be decreased by \$3,038, and its Chemicals Expense should be decreased by \$194 consistent with Commission regulation 807 KAR 5:066, Section 6(3), limiting water loss to 15 percent for ratemaking purposes.

¹⁰⁴ Staff's Report at 22–24.

¹⁰⁵ Staff's Report at 22–24.

Materials and Supplies. In its application, Muhlenberg District proposed an adjustment to increase Materials and Supplies expense by \$159,751¹⁰⁶ reflecting a substantial increase in Materials and Supplies expense.¹⁰⁷ Muhlenberg District calculated the increase by totaling the June 2023 year to date and the June 2024 year to date total for Maintenance of Mains and Maintenance of Meters, then multiplying the difference by two to determine a full year difference compared to the test year.¹⁰⁸

Staff disagreed with Muhlenberg District's methodology. Muhlenberg District's proposed approach showed a mid-year to mid-year comparison of accounting activity without consideration of year-end adjustments for changes in materials inventory or capitalization of items to fixed assets that were initially recorded as expense during the year.¹⁰⁹ Both 2023¹¹⁰ and 2024¹¹¹ reflect large year-end adjustments that reduce spending that occurred throughout the year. In addition, Staff noted that system performance may be a more significant cost driver in one-year verses another and not inflation.¹¹² A simple comparison of two periods does not establish an inflationary or ongoing performance conclusion.¹¹³

¹⁰⁶ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

¹⁰⁷ Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment H.

¹⁰⁸ Muhlenberg District's Response to Staff's First Request, Item 1d, 1d_Rate_Study.xlsx, Materials and Supplies Tab.

¹⁰⁹ Staff's Report at 24.

¹¹⁰ Muhlenberg District's Response to Staff's First Request, Item 1a, 1a_General_Ledger_2023.xlsx. Account 00636-0006 Maintenance of Mains

¹¹¹ Muhlenberg District's Response to Staff's First Request, Item 1a, 1a_General_Ledger_2024.xlsx. Account 00636-0006 Maintenance of Mains

¹¹² Staff's Report at 24.

¹¹³ Staff's Report at 24.

Staff compared the full year trial balance amounts for all materials and supplies sub-accounts during 2023¹¹⁴ and 2024.¹¹⁵ This comparison reflects a decrease in the total from \$191,565 in 2023 to \$148,981 in 2024, as shown in the table below.

Materials and Supplies Accounts	2023	2024	Difference
620-08 Materials & Supplies AD&G	\$ 7,818	\$ 4,686	\$ (3,132)
620-01 Pump Station Operation Supplies	194	129	(65)
620-02 Operation Supplies & Exp	16,147	16,917	770
636-02 Equip Maint & Repairs	14,819	8,548	(6,271)
635-05 Main Dist Reser & Standpipe	7,699	578	(7,121)
636-06 Maintenance of Mains	91,010	74,908	(16,102)
637-06 Maintenance of Meters	29,251	34,137	4,886
636-01 Maint of Pumping Equip	24,627	9,078	(15,549)
Total Materials and Supplies	<u>\$ 191,565</u>	<u>\$ 148,981</u>	<u>\$ (42,584)</u>

Staff recommended the Commission reject Muhlenberg District's adjustment of a \$159,751 increase to Materials and Supplies Expense, since the calculation methodology does not reflect consideration of year end accounting adjustment impact.¹¹⁶ Staff recommended the Commission authorize the test year amount of \$191,565 with no adjustments for an increase in materials and supplies expenses as spending will vary from year to year.¹¹⁷

The Commission agrees with Staff that Muhlenberg District's adjustment should be denied. Muhlenberg District's Materials and Supplies Expense should remain at the test year amount of \$191,565 given that Muhlenberg District's 2023 and 2024 Trial

¹¹⁴ Muhlenberg District's Response to Staff's First Request, Item 1a, 1a_General_Ledger_2023.xls, Column F.

¹¹⁵ Muhlenberg District's Response to Staff's First Request, Item 1a, 1a_General_Ledger_2024.xls, Column F.

¹¹⁶ Staff's Report at 24–25.

¹¹⁷ Staff's Report at 25.

Balances do not show any overall increase in cost for materials. The Commission agrees with Staff that a simple comparison of two periods does not establish an inflationary or ongoing performance conclusion.

Contractual Services. In its application, Muhlenberg District proposed an adjustment to increase Contractual Services by \$13,110¹¹⁸ to reflect an additional annual maintenance fee for billing software.¹¹⁹ Muhlenberg District supplied a copy of the signed contract,¹²⁰ and the contract identified a monthly payment of \$1,024.¹²¹ Muhlenberg District stated that the fee is \$12,888 yearly.¹²² Staff calculated an annual payment of \$12,288 based on \$1,024 per month for 12 months, which is \$822 less than proposed by Muhlenberg District, as shown in the table below.

Description	Amount
Monthly Contract Payments	\$ 1,024
Times: 12 months	12
Commission Staff's Adjustment	12,288
Muhlenberg District's proposed Adjustment ()	(13,110)
Difference between Muhlenberg District's and Commission Staff's Adjustments	<u>\$ (822)</u>

Staff recommended the Commission accept Staff's \$12,288 increase to Contractual Services to reflect the implementation of a new maintenance contract for billing software.¹²³

¹¹⁸ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

¹¹⁹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

¹²⁰ Muhlenberg District's Response, to Staff's Second Request, Item 4c, 4c_Contract.pdf.

¹²¹ Muhlenberg District's Response, to Staff's Second Request, Item 4c, 4c_Contract.pdf, at 6.

¹²² Muhlenberg District's Response, to Staff's Second Request, Item 4c.

¹²³ Staff's Report at 26.

The Commission finds that Staff's recommended adjustments are reasonable and should be accepted. Muhlenberg District's Employee Contractual Services should be increased by \$12,288 because the known and measurable change is a direct result of the contractual maintenance fee for billing software contract.

Depreciation Expense. In its application, Muhlenberg District proposed an adjustment to reduce Depreciation Expense by \$37,110¹²⁴ to reflect the "useful lives allowed by the Commission."¹²⁵ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Utilities* (NARUC Study).¹²⁶ 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.¹²⁷ Upon examination, Staff agreed with Muhlenberg District's methodology to adjust depreciation expense. Staff's calculation differed from Muhlenberg District in four sub-categories: Hydrants; Radio Read Meters, Transportation Equipment; and Structures and Improvements.¹²⁸

When Muhlenberg District calculated the Depreciation Expense for Hydrants, it depreciated all but one at the NARUC recommended 50-year useful service life; however,

¹²⁴ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment J.

¹²⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment J.

¹²⁶ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment K.

¹²⁷ 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.

¹²⁸ Staff's Report at 29.

one of the hydrants was depreciated over a 10-year service life, with no explanation as to why it was different from all other hydrants.¹²⁹ Staff disagreed with using 10-years for the hydrant and calculated the Depreciation Expense for all hydrants over the NARUC recommended 50-year service life.¹³⁰ Additionally, Muhlenberg District proposed a service life for Radio Read meters of 15-years.¹³¹ Muhlenberg District provided warranty information for its meters, stating the meters had a 20-year warranty period.¹³² Therefore, Staff calculated depreciation for the meters over the 20-year service life.¹³³ When Muhlenberg District calculated the adjustment for the Transportation Equipment it included six assets that had have been disposed of; Staff did not include these six assets in its calculation.¹³⁴ Finally, when Muhlenberg District calculated the adjustment for the water treatment plant's structures and improvements it included two assets that had no residual book value. Staff did not include these two assets in its calculation.¹³⁵

Staff calculated a Depreciation Expense of \$466,574, as shown in the following table, which is \$56,570 less than the reported test year amount of \$523,143 and \$19,460 less than Muhlenberg District's proposed \$37,110 decrease to Depreciation Expense.

¹²⁹ Staff's Report at 26–29.

¹³⁰ Staff's Report at 26–29.

¹³¹ Staff's Report at 26–29.

¹³² Muhlenberg District's Response to Staff's First Request, Item 9a.

¹³³ Staff's Report at 28.

¹³⁴ Staff's Report at 28.

¹³⁵ Staff's Report at 28.

Asset Category	NARUC Recommended			
	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Structures and Improvements	35-40	\$ 11,028	\$ (2,823)	\$ 8,205
Communication Equipment	10	3,304	3,633	6,937
Power Operated Equipment	10 - 15	1,303	(573)	730
Tools, Shop, & Garage Equipment	15 - 20	3,121	(1,609)	1,512
Structures and Improvements	35 - 40	600	40	640
Communication Equipment	10	10,141	-	10,141
Pumping Equipment	20	3,884	118	4,002
Hydrants	40 - 60	485	(249)	236
Transmission & Distribution Lines	50 - 75	135,290	(37,585)	97,705
Meter Change-Outs	20	85,598	(21,487)	64,111
Services	30 - 50	4,285	(2,678)	1,607
Reservoirs & Tanks	30 - 60	67,300	(15,831)	51,469
Transportation Equipment	7	123,798	(1,448)	122,350
Structures and Improvements	35 - 40	72,668	24,194	96,862
Water Treatment Equipment	20-35	339	(272)	67
Total Depreciation Expense		<u>\$ 523,144</u>	<u>(56,570)</u>	<u>\$ 466,574</u>
Muhlenberg District's Proposed Adjustment ()			37,110	
Difference Between Muhlenberg District and Commission Staff's Adjustment			<u>\$ (19,460)</u>	

Staff recommended the Commission accept Staff's \$56,570 decrease to Depreciation Expense to reflect the annualization of Depreciation Expense at the recommended NARUC midpoint service lives for capital assets with a remaining book value.¹³⁶

The Commission finds that Staff's recommended adjustments are reasonable and should be accepted. Muhlenberg District's Depreciation Expense should be decreased by \$56,570 because the known and measurable change is a direct result of aligning Muhlenberg District's capital asset's useful lives with the NARUC Study's recommended useful lives, only recording depreciation for the assets that Muhlenberg District still possess, as well as setting the service lives for the radio-read meters at 20 years. The

¹³⁶ Staff's Report at 26–29.

Commission has ordered that, unless evidence is supplied to justify a different useful life, radio read meters will be depreciated over a 20-year service life.¹³⁷

Depreciation – Capitalization of Water Tap Labor. As explained in the expenses related to water installations 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.¹³⁸ Muhlenberg District confirmed that it had not capitalized the labor costs of the water meter¹³⁹ or the costs of materials used.¹⁴⁰ Therefore, Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$550 to account for the Tap Fee labor and materials, as shown below:

Description	Labor Expenses	Material Expenses
Test Year Water Connections Expense	\$ 7,011	\$ 16,359
Divided by: NARUC Proposed Service Lives	42.5	42.5
Total Capitalized Expense Increase	<u>\$ 165</u>	<u>385</u>
Total Capitalized Expense		<u>\$ 550</u>

Staff recommended the Commission accept Staff's \$550 increase to Depreciation Expense, because the USoA requires the assets to be depreciated over their estimated useful lives.¹⁴¹

¹³⁷ Case No. 2024-00061, *Electronic Application of Butler County Water System, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 1, 2024), Order at 19–20. Case No. 2024-00068, *Electronic Application of Simpson County Water District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Oct. 29, 2024), Order at 21–22.

¹³⁸ USoA, Accounting Instruction 19 and 33.

¹³⁹ Muhlenberg District's Response to Staff's First Request, Item 18b.

¹⁴⁰ Muhlenberg District's Response to Staff's First Request, Item 18c.

¹⁴¹ Staff's Report at 31.

The Commission finds that Staff's recommended adjustments are reasonable and should be accepted. Muhlenberg District's Depreciation Expense should be increased by \$550 because the known and measurable amount reflects USoA requirement for assets to be depreciated over their estimated useful lives.

Amortization Expense. In its application, Muhlenberg District proposed an adjustment to increase Amortization Expense by \$8,335¹⁴² to reflect the five-year amortization of the installation costs for upgrades for the billing system.¹⁴³ During 2023, United Systems contacted Muhlenberg District and informed its staff that upgrades would be necessary to continue utilizing its billing software.¹⁴⁴ Muhlenberg District submitted the invoices for the initial cost of the upgrades needed.¹⁴⁵ Also, Muhlenberg District provided a breakdown of the invoices identifying those that were included in the initial outlay.¹⁴⁶ Totaling the invoices, Staff calculated a total initial expense of \$45,186.¹⁴⁷ Muhlenberg District proposed to amortize the initial upgrade expense over a five-year period.¹⁴⁸ Therefore, Staff calculated an annual amortization of \$9,037 for the cost of the Billing Software upgrade, which is \$702 more than proposed by Muhlenberg District, as shown in the following table.

¹⁴² Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

¹⁴³ Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment I.

¹⁴⁴ Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment I.

¹⁴⁵ Muhlenberg District's Response to Staff's First Request, Item 8, 8_Billing_Software.pdf.

¹⁴⁶ Muhlenberg District's Response to Staff's Second Request, Item 4a, 4a_Billing_Software_Upgrade_Invoices.xlsx.

¹⁴⁷ Staff's Report at 30–31.

¹⁴⁸ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

Description	Invoice	Cost
Lang Professional Services	842051	\$ 750
Wireless router, internal hard drives, and miscellaneous items	842052	1,790
Miscellaneous Items	842090	2,706
Dell Precision Server, Vmware Sub Only vSphere 8 Essentials Kit 3 Years Lics, and Professional Svcs	844530	12,265
Miscellaneous Items	CW5312	214
Network Drop Installation	None	2,800
SQL Server 2019 Open Business and SQL 2019 Open Business User	109661	2,966
Alliance UMS G5 Software, Service Order Conversions, UMS Data Conversion, and Alliance Setup	111493	18,600
G5 Portal Setup Fee	111792 Line 1	2,095
Remote Technical Services	111792 Line 3	1,000
Total Initial Cost for Billing Software Upgrades		45,186
Amortized over Five Years		5
Commission Staff's Adjustment		9,037
Muhlenberg District's Adjustment ()		(8,335)
Difference between Muhlenberg and Commission Staff's Adjustments		\$ 702

Staff recommended the Commission accept Staff's \$9,037 increase to Amortization Expense as well as the five-year period to reflect the annualization of the Billing Software upgrades over a five-year period.¹⁴⁹

The Commission finds that Staff's recommended adjustments is reasonable and should be accepted. Muhlenberg District's Amortization expense should be increased by \$9,037 to reflect a five-year amortization of the initial cost of upgrades to the billing system, as this is the amount of time barring unusual circumstances, when Muhlenberg District should, or is expected to file a new rate case.¹⁵⁰

Taxes Other Than Income. In its application, Muhlenberg District proposed an adjustment to decrease Payroll Taxes by \$10,373,¹⁵¹ to reflect the decrease to Salaries

¹⁴⁹ Staff's Report at 30–31.

¹⁵⁰ Case No. 2023-00191, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates, a Certificate of Public Convenience and Necessity for Installation of Advanced Metering Infrastructure, Approval of Regulatory and Accounting Treatments, and Tariff Revisions* (Ky. PSC May 3, 2024), Order at 23 (Note that a Rehearing Order was entered in this case on Nov. 6, 2024 but was unrelated to amortization of rate case expense).

¹⁵¹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

and Wages.¹⁵² As explained in Salaries and Wages – Employees adjustment above, Staff calculated Muhlenberg District's pro forma Salaries and Wages – Employees of \$1,036,059. Therefore, Staff calculated an increase of \$7,059 to Taxes Other Than Income, which is \$17,432 more than Muhlenberg District's proposed adjustment, as shown in the following table.

Description	Amount
Salaries and Wages - Employees	\$ 1,036,059
Salaries and Wages - Officers	18,000
Total Salaries and Wages	1,054,059
Times: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	80,636
Total Taxes Other Than Income	80,636
Test Year Payroll Taxes ()	(73,577)
Commission Staff's Taxes Other Than Income Adjustment	7,059
Muhlenberg District's Proposed Adjustment ()	10,373
Difference between Commission Staff's Adjustment and Muhlenberg District's	<u>\$ 17,432</u>

Staff recommended the Commission approve Staff's adjustment to increase Taxes other than Income by \$7,059, because it is a known and measurable change that is a direct result from changes to Salaries and Wages – Employees, and Salaries and Wages - Officers.¹⁵³

The Commission finds that Staff's adjustments are reasonable and should be accepted. Muhlenberg District's Taxes Other Than Income should be increased by \$7,059 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees.

¹⁵² Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment E.

¹⁵³ Staff's Report at 31–32.

SUMMARY OF ADJUSTMENTS

Based upon the Commission's findings discussed above, the following table summarizes Muhlenberg District's adjusted pro forma:

Description	Commission Staff's Pro Forma	Pro Forma Adjustment	Pro Forma
Insurance - Other	\$ 4,595,310	\$ -	\$ 4,595,310
Total Operating Expenses ()	(4,773,357)	-	(4,773,357)
Net Operating Income	(178,047)	-	(178,047)
Interest Income	8,131	-	8,131
Income Available to Service Debt	\$ (169,916)	\$ -	\$ (169,916)

REVENUE REQUIREMENT

Muhlenberg District proposed to use the Operating Ratio (OR) method to calculate its Revenue Requirement.¹⁵⁴ The Commission has historically used an OR Method to calculate the revenue requirement for water districts or associations with little to no outstanding long-term debt.¹⁵⁵ Muhlenberg District proposed to use an OR of 86 percent in its application.¹⁵⁶ Muhlenberg District provided no evidence in support of an OR of 86 percent. The Commission has historically used an OR of 88 percent to calculate the additional working capital.¹⁵⁷ An OR of 88 percent will allow Muhlenberg District necessary working capital and revenues to cover its reasonable operating expenses to

¹⁵⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Revenue Requirements Using Operating Ratio Method Table.

¹⁵⁵ Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Dec. 22, 2023).

¹⁵⁶ Application, Attachment 4, Revenue Requirement Using Operating Ratio Method.

¹⁵⁷ ¹⁵⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Revenue Requirements Using Operating Ratio Method Table.

operate and provide for reasonable equity growth. Staff reported that, if the Commission used the Debt Service Coverage (DSC) method, Muhlenberg District would only recover \$175,193 for the Debt Service and Additional Working Capital, as shown in the following table.¹⁵⁸

Description	DSC Methodology
Pro Forma Operating Expenses	\$ 4,773,357
Average Annual Principal and Interest Payments	146,121
Additional Working Capital at 20%	29,224
Total Revenue Requirement	4,948,702
Pro Forma Expense ()	(4,773,357)
Additional Capital	<u>\$ 175,345</u>

The Operating Ratio method provides \$650,912 additional working capital. Due to Muhlenberg District's low debt service requirement, the rate increase from the debt service coverage method would not provide it with sufficient working capital to operate effectively to provide adequate, efficient, and reasonable service.¹⁵⁹ Therefore, the Commission determined that the OR method was more suitable than the DSC method to provide Muhlenberg Water sufficient working capital to maintain financial stability.

By applying the Operating Ratio method, Staff found Muhlenberg District's Revenue Requirement from Rates for Service to be \$5,288,496. A revenue increase of \$833,489, or 18.71 percent, is necessary to generate the Overall Revenue Requirement of \$5,436,930. After reviewing the evidence provided, the Commission finds that the application of the OR Method is reasonable.

¹⁵⁸ Staff's Report at 34.

¹⁵⁹ Staff's Report at 32–34.

Description	Staff Recommended	Commission Approved
Pro Forma Operating Expenses	\$ 4,773,357	\$ 4,773,357
Divided by: 88 Percent Operating Ratio	88%	88%
Plus: Average Interest Expense	12,661	12,661
Overall Revenue Requirement	5,436,930	5,436,930
Less: Other Operating Revenue	(140,304)	(140,304)
Interest Income	(8,131)	(8,131)
Revenue Required from Rates	5,288,495	5,288,495
Less: Revenue from Sales at Present Rates	(4,455,006)	(4,455,006)
Required Revenue Increase	\$ 833,489	\$ 833,489
Percentage Increase	18.71%	18.71%

Average Annual Interest and Fees Payments. At the time of Staff's review, Muhlenberg District had one outstanding KRWFC Bond.¹⁶⁰ Therefore, Staff included the average annual interest on a three-year average for the years 2025 through 2027. Staff calculated an average Interest Expense of \$12,661 as shown in the following table.

Year	2007D Bonds		Total
	Interest	Fees	
2025	\$ 18,200	\$ 450	\$ 18,650
2026	12,513	450	12,963
2027	6,370	-	6,370
Total	37,083	900	37,983
Divided by: 3 years			3
Average Annual Interest and Fees			\$ 12,661

The Commission finds Staff's calculated Average Interest and Fees Payments of \$12,661 should be included in Muhlenberg District's Revenue Requirement because the OR methodology allows for the recovery of the interest and fees payments.

¹⁶⁰ Case 2007-00163, *Application of The Muhlenberg County Water District to Issue Securities in the Approximate Principal Amount of \$1,897,000 Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001*, (Ky. PSC May 24, 2007).

Other Operating Revenues. In the application, Muhlenberg District reported \$468,577 for the test year Other Operating Revenues Income.¹⁶¹ However, Staff reviewed the calculations and determined this amount was incorrect, the \$468,577 Muhlenberg District reported reflects a combination of Chemicals, Materials and Supplies, and Contractual Services expenses that were mistakenly reported as Other Operating Revenues.¹⁶² Staff recalculated the Other Operating Revenues based on the pro forma adjustments. Therefore, using the pro forma Forfeited Discounts of \$68,761 and Other Water Revenues of \$71,543, as shown in the Schedule of Adjusted Operations above, resulted in a net Other Operating Revenue of \$140,304.

The Commission finds Staff's calculated Other Operating Revenues of \$140,304 should be excluded from Muhlenberg District's Revenue Requirement because the calculation of \$140,304 is the total of the Forfeited Discounts, Nonrecurring Charges, and Nonrecurring Revenues discussed above.

RATE DESIGN

In its application, Muhlenberg District proposed to increase its monthly water service rates by 12.36 percent to all its water customers across the board.¹⁶³ Muhlenberg 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.¹⁶⁴

¹⁶¹ Application, Attachment 4, Revenue Requirement using Operating Ratio Method.

¹⁶² Muhlenberg District's Response to Staff's First Request, Item 1d, 1d_Rate_Study.xlsx, Revenue Requirement Tab, Cell G21.

¹⁶³ Application, Corrected_Customer_Notice.pdf.

¹⁶⁴ Muhlenberg District's Response to Staff's First Request, Item 21.

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.¹⁶⁵ Finding no such evidence in this case, Staff allocated the \$833,490 revenue increase evenly across Muhlenberg District's monthly retail water service rates.

The rates, as calculated by Staff, which are set forth in Appendix B to this Order, are based upon the revenue requirement. The Commission finds that these rates are fair, just and reasonable, and will produce sufficient revenues from water sales to recover the \$5,288,495 Revenue Required from Water Sales, an approximate 18.71 percent increase. The new rates will increase the monthly bill of a typical residential customer using approximately 3,432 gallons per month, from \$46.48 to \$55.05, an increase of \$8.57, or approximately 18.44 percent.¹⁶⁶

The Commission finds that the evidence provided in the record and the allocation methodology used by Staff are fair, just and reasonable and should be approved.

Nonrecurring Charges. The Commission has 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.¹⁶⁷ Muhlenberg District provided updated cost justification information for the

¹⁶⁵ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

¹⁶⁶ Application, Corrected Customer Notice (the average retail customer uses 3,432 gallons per month).

¹⁶⁷ 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*

Nonrecurring Charges¹⁶⁸ as well as a list of the number of occurrences for each of its Nonrecurring Charges.¹⁶⁹ Staff reviewed the cost justification information provided by Muhlenberg 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. Staff also removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal business hours. Connection/Turn-on Charge increased \$37, from \$15 to \$52, due in part to an increase in transportation and other Miscellaneous expenses as shown in the cost justification provided.¹⁷⁰ Field Collection Charge and Service Call/Investigation both increased \$2, from \$35 to \$37, also due to the increase in transportation expense as shown in the cost justification provided.¹⁷¹ Staff recommended the Commission accept the respective adjustments and increases for the charges mentioned above, as these were supported by Muhlenberg District cost justification and the amounts meet the ratemaking criteria of being known and measurable.¹⁷²

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).

¹⁶⁸ Muhlenberg District's Response to Staff's Second Request, Item 9, 9_Nonrecurring_Charges_Cost_Justifications.

¹⁶⁹ Muhlenberg District's Response to Staff's First Request, Item 25, 25_Nonrecurring_Charges.

¹⁷⁰ Muhlenberg District's Response to Staff's Second Request, Item 9, 9_Nonrecurring_Charges_Cost_Justifications at 1.

¹⁷¹ Muhlenberg District's Response to Staff's Second Request, Item 9, 9_Nonrecurring_Charges_Cost_Justifications at 2 & 6.

¹⁷² Staff's Report at 7.

The Commission finds that the Staff's recommended increases and adjustments for the charges mentioned above are appropriate. The provided cost justification supports the increases in transportation and other Miscellaneous expenses resulting from work performed during normal business hours, and the district should be allowed to recover through nonrecurring charges.

The Staff's proposed nonrecurring charges are listed below. The Commission finds that the Staff's Report recommendation is reasonable given that labor expenses resulting from work performed during normal business hours, already recovered in wages, should not be recovered through nonrecurring charges.¹⁷³ The Commission requires that charges be directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. For the reasons discussed above, the estimated labor expenses previously included in determining the rate of nonrecurring charges should be eliminated from the charges, as proposed by Staff.

The breakdown of cost for each nonrecurring charge and any Staff adjustment can be found in Appendix A.

¹⁷³ Case No. 2023-00090, *Electronic Application of Henry County Water District #2 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2023); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 4, 2024); Case No. 2023-00090, *Electronic Application of Kirksville Water Association Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024).

Nonrecurring Charges	Current Charge	Revised Charge
Connection/Turn-on Charge	\$ 15.00	\$ 52.00
Field Collection Charge	\$ 35.00	\$ 37.00
Meter Relocation Charge	Actual Cost	Actual Cost
Reconnection Charge	\$ 50.00	\$ 37.00
Returned Check Charge	\$ 25.00	\$ 4.00
Service Call/Investigation	\$ 35.00	\$ 37.00
Meter Test Request	\$ 75.00	\$ 38.00

The Commission finds that Staff's recommendation is reasonable, and the revised nonrecurring charges as described above and in Appendix B to be reasonable.

Tap-On Fee. Muhlenberg District provided an updated cost justification for its 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge.¹⁷⁴ Staff reviewed the cost justification information provided by Muhlenberg District and noted it supports an increase in the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge. Staff recommended that the Commission accept Muhlenberg District's proposed increase for the Tap-On fee from \$570 to \$1,440 for the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge, as \$1,440 represents the actual costs associated with performing this service.¹⁷⁵

The Commission agrees with Muhlenberg District's supported increase of the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge to \$1,440, to reflect the current expenses incurred to install new taps, in order to prevent an under recovery for the tap fee. Increasing the tap fee rate in line with Muhlenberg District's actual cost will result in a fair, just and reasonable rate. In addition, over time, under recovery of a particular charge will result in degradation of the utility's financial condition.

¹⁷⁴ Muhlenberg District's Response to Staff's Second Request, Item 10, 10_Tap_Fee_Cost_Jusitification.

¹⁷⁵ Staff's Report at 8–9.


SUMMARY


After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Staff's Report, along with the above stated modifications, are supported by the evidence of record and are reasonable. By applying the OR Method to Muhlenberg District's pro forma operations results in an Overall Revenue Requirement of \$5,436,930 and that a \$833,489 revenue increase, or 18.71 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.


IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Staff's Report, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Muhlenberg District are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Muhlenberg District on or after the date of this Order.
4. Within 20 days of the date of service of this Order, Muhlenberg District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00404 DATED SEP 15 2025

* Denotes Rounding

Nonrecurring Charges Adjustments

Connection/Turn-on Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (1hr @ \$27.73)	\$ 27.73	\$	-
Office Supplies (Paperwork)	\$ 1.50	\$	1.50
Office Labor (30min @ \$25.00)	\$ 12.50	\$	-
Transportation (50miles @ 70 cents)	\$ 35.00	\$	35.00
Misc. (Office expenses for establishing new account + billing record)	\$ 15.00	\$	15.00
Total Revised Charge*	\$ 91.73	\$	52.00
Current Rate	\$15.00		

Field Collection Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (2hr @ \$27.73)	\$ 55.46	\$	-
Office Supplies (Paperwork)	\$ 1.50	\$	1.50
Office Labor (30min @ \$25.00)	\$ 12.50	\$	-
Transportation (50miles @ 70 cents)	\$ 35.00	\$	35.00
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 104.46	\$	37.00
Current Rate	\$35.00		

Meter Relocation Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor	\$ -	\$	-
Office Supplies	\$ -	\$	-
Office Labor	\$ -	\$	-
Transportation	\$ -	\$	-
Misc.	\$ -	\$	-
Total Revised Charge*	\$ -	\$	-
Current Rate	Actual Cost	Actual Cost	

Reconnection Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (1hr @ \$27.73)	\$ 27.73	\$	-
Office Supplies (Paperwork)	\$ 1.50	\$	1.50
Office Labor (30min @ \$25.00)	\$ 12.50	\$	-
Transportation (50miles @ 70 cents)	\$ 35.00	\$	35.00
Misc.	\$ -	\$	-
Total Revised Charge*	<u>\$ 76.73</u>	<u>\$</u>	<u>37.00</u>
Current Rate	\$50.00		

Returned Check Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor	\$ -	\$	-
Office Supplies (Envelope, paper, stamp)	\$ 3.23	\$	3.23
Office Labor (30min @ \$25.00)	\$ 12.50	\$	-
Transportation	\$ -	\$	-
Misc.	\$ -	\$	-
Total Revised Charge*	<u>\$ 15.73</u>	<u>\$</u>	<u>4.00</u>
Current Rate	\$25.00		

Service Call/Investigation			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (2hr @ \$27.73)	\$ 55.46	\$	-
Office Supplies (Paperwork)	\$ 1.50	\$	1.50
Office Labor (15min @ \$25.00)	\$ 6.25	\$	-
Transportation (50miles @ 70 cents)	\$ 35.00	\$	35.00
Misc.	\$ -	\$	-
Total Revised Charge*	<u>\$ 98.21</u>	<u>\$</u>	<u>37.00</u>
Current Rate	\$35.00		

Meter Test Request			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (2hr @ \$27.17)	\$ 54.34	\$	-
Office Supplies (Paper)	\$ 1.50	\$	1.50
Office Labor (1hr @ \$25.00)	\$ 25.00	\$	-
Transportation (50miles @ 70 cents)	\$ 35.00	\$	35.00
Misc. (220 gallons water)	\$ 1.01	\$	1.01
Total Revised Charge*	<u>\$ 116.85</u>	<u>\$</u>	<u>38.00</u>
Current Rate	\$75.00		

5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge			
	Utility Revised Charge		Staff Revised Charge
Materials Expense	\$	903.35	\$ 903.35
Service Pipe Expense	\$	11.25	\$ 11.25
Installation Labor Expense	\$	221.84	\$ 221.84
Installation Equipment Expense	\$	200.00	\$ 200.00
Installation Miscellaneous Expense	\$	41.60	\$ 41.60
Overhead Expense	\$	46.34	\$ 46.34
Administrative Expense	\$	15.00	\$ 15.00
Total Revised Charge*	\$	1,439.38	\$ 1,440.00
Current Rate		\$570.00	

APPENDIX B

APPENDIX TO STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00404 DATED SEP 15 2025

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

Monthly Water Rates

5/8" X 3/4" Meters

First	2,000	Gallons	\$ 35.87	Minimum Bill
Next	8,000	Gallons	\$ 0.01339	Per Gallon
Next	10,000	Gallons	\$ 0.01260	Per Gallon
Next	30,000	Gallons	\$ 0.01183	Per Gallon
Over	50,000	Gallons	\$ 0.01105	Per Gallon

1" Meters

First	5,000	Gallons	\$ 76.25	Minimum Bill
Next	5,000	Gallons	\$ 0.01339	Per Gallon
Next	10,000	Gallons	\$ 0.01260	Per Gallon
Next	30,000	Gallons	\$ 0.01183	Per Gallon
Over	50,000	Gallons	\$ 0.01105	Per Gallon

1 1/2" Meters

First	11,000	Gallons	\$ 156.06	Minimum Bill
Next	9,000	Gallons	\$ 0.01260	Per Gallon
Next	30,000	Gallons	\$ 0.01183	Per Gallon
Over	50,000	Gallons	\$ 0.01105	Per Gallon

2" Meters

First	16,000	Gallons	\$ 219.30	Minimum Bill
Next	4,000	Gallons	\$ 0.01260	Per Gallon
Next	30,000	Gallons	\$ 0.01183	Per Gallon
Over	50,000	Gallons	\$ 0.01105	Per Gallon

3" Meters

First	26,000	Gallons	\$ 341.16	Minimum Bill
Next	24,000	Gallons	\$ 0.01183	Per Gallon
Over	50,000	Gallons	\$ 0.01105	Per Gallon

4" Meters

First	36,000	Gallons	\$ 459.97	Minimum Bill
Next	14,000	Gallons	\$ 0.01183	Per Gallon
Over	50,000	Gallons	\$ 0.01105	Per Gallon

Wholesale Rate

\$ 0.00809 Per Gallon

Nonrecurring Charges	Revised Charge
Connection/Turn-on Charge	\$ 52.00
Field Collection Charge	\$ 37.00
Meter Relocation Charge	Actual Cost
Reconnection Charge	\$ 37.00
Returned Check Charge	\$ 4.00
Service Call/Investigation	\$ 37.00
Meter Test Request	\$ 38.00

Meter Connection/Tap-On Charges

5/8 Inch X 3/4 Inch \$ 1,440.00

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