

WHOLESALE WATER RATE STUDY

City of Augusta Kentucky

Water Treatment Plant Department

August 5, 2024

Prepared by
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Kentucky Rural Water Association

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EXECUTIVE SUMMARY

The City of Augusta's Water Treatment Plant Department ("Augusta Treatment") operates a water treatment plant facility that provides potable water to the City of Augusta's Water Distribution Department ("Augusta Distribution") and to Bracken County Water District ("Bracken District"). Service is provided to Bracken District pursuant to a Water Purchase Contract executed on February 9, 2016 ("2016 Contract"), as amended by an Agreement dated May 10, 2021 ("2021 Agreement").

Augusta Treatment delivers water to Bracken District and Augusta Distribution through separate master meters located immediately adjacent to the water treatment plant. Augusta Treatment does not provide water transmission or distribution services and incurs no costs for such services. All costs incurred by Augusta Treatment are necessary for water production. Pursuant to the 2016 Contract, Section 16.e., water production costs are allocated between Bracken District and Augusta Distribution based upon the total annual volume of water delivered to each party except that Section 16.d. of the 2016 Contract limits debt service costs assignable to Bracken District to 64 percent of Augusta Treatment's total annual debt service requirement.

Augusta Treatment currently charges a uniform rate to both wholesale customers in the amount of \$2.36 per thousand gallons that went into effect on May 1, 2021, pursuant to an Order of the Kentucky Public Service Commission ("KPSC") in Case No. 2020-00277. At the City of Augusta's request, Kentucky Rural Water Association ("KRWA") agreed to evaluate the reasonableness of the current rate. KRWA's findings are summarized in this report.

As required by the 2016 Contract, Section 16.a., the City of Augusta's most recent audit report for the fiscal year ended ("FYE") June 30, 2023, was used as the test-year to perform the evaluation. Adjustments were made to test-year operating costs that were known and measurable as allowed by the 2016 Contract, Section 16.f. While the 2016 Contract does not include a provision that specifically allows for known and measurable adjustments to revenues, there is no prohibition against such adjustments. There being no prohibition, known and measurable adjustments were also made to test-year revenues.

All adjustments are shown as a part of the Pro Forma Operating Statement attached hereto as Schedule A along with explanation of each adjustment. Allocation of Pro Forma Expenses to Augusta Distribution and to Bracken District is shown in Schedule B. Augusta Treatment's average annual debt service requirement and its allocation to the wholesale customers is shown in Schedule C. Calculation of the wholesale rates is provided in Schedule D.

Separate rates for Augusta Distribution and Bracken District were calculated to be \$3.32 per 1,000 gallons and \$2.87 per 1,000 gallons, respectively. A unified rate was calculated to be \$2.97 per 1,000 gallons. As discussed in Schedule D, the method used to calculate the debt service component of the unified rate is in violation of the 2016 Contract, Section 16.d., with more than 64 percent of the total debt service costs being allocated to Bracken District.

Schedule A
PRO FORMA ADJUSTED OPERATING STATEMENT
City of Augusta Water Treatment Plant, Test Year Ended June 30, 2023

	<u>Test Year</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Pro forma</u>
Water Sales Revenue				
Augusta Distribution Department	\$ 126,660	\$ (2,667) (A)		
		(23,850) (B)		\$ 100,143
Bracken County Water District	370,624	38,041 (C)		
		(44,070) (D)		364,595
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Total Water Sales Revenue	497,284	\$ (32,547)		464,737
	<hr/>			<hr/>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages	185,277	10,070 (E)		195,347
Employee Benefits - Health Insurance	19,003	9,555 (F)		28,558
Purchased Power for Pumping	87,413	(6,449) (G)		80,964
Chemicals - Water Treatment	30,870	5,900 (H)		
		(9,023) (I)		27,746
Chemicals - Lab	5,800			5,800
Repairs - Materials and Contract Labor	49,301	(16,667) (J)		
		(8,086) (K)		24,549
Natural Gas	3,559			3,559
Testing	3,524			3,524
Employee Training	1,021			1,021
Contracted Services - Audit	1,700			1,700
Contracted Services - Legal	2,142	1,282 (L)		3,423
Contracted Services - Software	713			713
Rate Case Expense - Amortization		2,750 (M)		2,750
Copier	541			541
Communication	2,416			2,416
Insurance - General Liability	11,039	(2,638) (N)		8,401
Insurance - Workers Comp	6,492			6,492
Office Supplies	323			323
Ground Maintenance	2,838			2,838
Miscellaneous - Bond Fees	450			450
Bank Service Fees	65			65
	<hr/>			<hr/>
Total Operation and Maintenance	414,486	(13,307)		401,179
Depreciation	104,882	809 (K)		
		(42,822) (O)		65,412
		2,543 (P)		65,412
Taxes Other Than Income	14,004	940 (Q)		14,944
	<hr/>			<hr/>
Total Operating Expenses	533,372	(51,837)		481,535
	<hr/>			<hr/>
Net Operating Income	(36,088)	19,290		(16,798)
Plus: Interest Income	1,409			1,409
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Income Available to Service Debt	\$ (34,679)	\$ 19,290		\$ (15,389)
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EXPLANATION OF ADJUSTMENTS

(A) Revenue Reporting – Accrual Basis Accounting. For bookkeeping purposes, Augusta Treatment recognizes revenue on a cash basis. As part of the year-end audit process, test-year sales revenue received from Bracken District was adjusted to an accrual basis of accounting. However, revenue received from Augusta Distribution was not adjusted to an accrual basis. In this analysis, test-year revenue was decreased by \$2,667 to convert sales to Augusta Distribution from a cash basis to an accrual basis of accounting.

(B) Decrease to Test-Year Water Sales Volume. Augusta Treatment’s water sales to Augusta Distribution and to Bracken District decreased significantly after the end of the test year. Augusta Distribution’s annual purchases decreased by 19 percent in pro forma operations. Bracken District decreased its purchases by nearly 11 percent. These changes to water sales will directly affect Augusta Treatment’s revenue and purchased power and chemical expenses. Adjustments were made to account for these changes. The adjustment for water sold to Augusta Distribution is discussed below. The adjustment to water sold to Bracken District is shown in Ref. Item (D). Adjustments to Purchased Power for Pumping and Chemicals are discussed in Ref. Items (G) and (I), respectively.

Sales to Augusta Distribution. In January of the test year, Augusta Distribution repaired a major water main leak that resulted in a significant decrease to its wholesale water purchases. To fully remove the effects of the leak from test-year operations, Augusta Treatment’s pro forma sales were adjusted to the amount billed to Augusta Distribution during the twelve months ended April 30, 2024, the -off date for field work conducted to perform this study. The adjustment is detailed below with the pro forma information shown in bold font.

Adjustment - Sales to Augusta Distribution						
	Production Month	Billed Gallons	Total Gallons	Billed Revenue	Total Revenue	
Test Year	July 2022	4,482,456		\$ 10,579		
Accrual Basis of Accounting	August	4,409,160		10,406		
	September	4,004,072		9,450		
	October	4,798,307		11,324		
	November	5,299,703		12,507		
	December	8,138,245		19,206		
	January 2023	5,813,224		13,719		
	February	2,956,951		6,978		
	March	3,101,463		7,319		
	April	3,054,521		7,209		
	Pro forma	May	3,165,153		7,470	
	Total Test Year	June	3,316,189	52,539,444	7,826	\$ 123,993
		July	3,022,622		7,133	
	August	3,211,697		7,580		
	September	2,909,823		6,867		
	October	3,039,053		7,172		
	November	2,703,775		6,381		
	December	3,409,054		8,045		
	January 2024	4,100,305		9,677		
	February	4,502,633		10,626		
	March	4,553,181		10,746		
Total Pro forma	April	4,500,023	42,433,508	10,620	100,143	
Decrease to Test Year			(10,105,936)		\$ (23,850)	
Percentage			-19.23%		-19.23%	

(C) Revenue Reporting – Reimbursement of Overcharges Resulting from Inaccurate Master Meter. Prior to the test year, it was discovered that the master meter through which Augusta Treatment serves Bracken District was inaccurately measuring water flow from August 4, 2020 to November 30, 2021. The inaccurate meter resulted in Augusta Treatment overbilling Bracken District by \$58,951. Pursuant to the “Agreement Resolving Billing Dispute” dated July 20, 2022, Augusta Treatment agreed to refund the overcharges through five billing credits in the amount of \$9,510 (\$58,951/5).

For financial reporting purposes, Augusta Treatment recognized four of the monthly billing credits totaling \$38,041 as a reduction to test-year revenues. In this evaluation, these

credits were added back to the test year for rate-making purposes to restate pro forma revenue from water sales to Bracken District at \$408,665, the amount of actual test-year water sales to Bracken District. The adjustment is detailed below.

Test Year	Gallons Sold to Bracken	Actual Revenue at \$2.36 per 1,000	Refund Credit	Reported Test-Year Revenue
2022 July	15,713,214	\$ 37,083	\$ (9,510)	\$ 27,573
August	14,410,836	34,010	(9,510)	24,499
September	13,833,302	32,647	(9,510)	23,136
October	14,393,328	33,968	(9,510)	24,458
November	14,490,751	34,198		34,198
December	16,333,198	38,546		38,546
2023 January	14,663,912	34,607		34,607
February	11,663,373	27,526		27,526
March	12,041,624	28,418		28,418
April	13,346,270	31,497		31,497
May	16,704,055	39,422		39,422
June	15,569,117	36,743		36,743
		<u>\$ 408,665</u>	<u>\$ (38,041)</u>	<u>\$ 370,624</u>

(D) Bracken District Reduces Purchases from Augusta Treatment. Bracken District significantly decreased test-year wholesale water purchases from Augusta Treatment during the twelve months ended April 30, 2024, presumably as a result of purchasing wholesale water from an alternative source of supply, Western Mason Water District. To determine pro forma present rate water sales revenue, Augusta Treatment’s test-year sales to Bracken District were decreased to the level of revenue recognized during the twelve months ended April 30, 2024. The adjustment is detailed below with the pro forma information shown in bold font.

Adjustment - Sales to Bracken						
	Production <u>Month</u>	Billed <u>Gallons</u>	Total <u>Gallons</u>	Billed <u>Revenue</u>	Total <u>Revenue</u>	
Test Year	July 2022	15,713,214		\$ 37,083		
Accrual Basis of Accounting	August	14,410,836		34,010		
	September	13,833,302		32,647		
	October	14,393,328		33,968		
	November	14,490,751		34,198		
	December	16,333,198		38,546		
	January 2023	14,663,912		34,607		
	February	11,663,373		27,526		
	March	12,041,624		28,418		
	April	13,346,270		31,497		
	Pro forma	May	16,704,055		39,422	
	Total Test Year	June	15,569,117	173,162,980	36,743	\$ 408,665
		July	13,862,081		32,715	
	August	14,039,725		33,134		
	September	12,900,334		30,445		
	October	11,730,678		27,684		
	November	11,613,079		27,407		
	December	12,102,538		28,562		
	January 2024	12,975,798		30,623		
	February	11,551,364		27,261		
	March	11,290,404		26,645		
Total Pro forma	April	10,149,945	154,489,118	23,954	364,594	
Decrease to Test Year			(18,673,862)		\$ (44,070)	
Percentage			-10.78%		-10.78%	

(E) Salaries and Wages. The City of Augusta has three full-time employees dedicated to operating the water treatment plant whose wages and benefits are charged 100 percent to Augusta Treatment. Augusta Treatment's accounting and clerical duties are performed by the City Clerk. Augusta Treatment is allocated 25 percent of the clerk's compensation. The City of Augusta allocates 50 percent of its Operations Manager's wages to Augusta Treatment. Augusta Treatment has a three-member Advisory Board who are each paid \$50 per meeting.

Test-year Salaries and Wages were reported at \$185,277. This amount was increased by \$10,070 to state pro forma Salaries and Wages at \$195,347. The pro forma amount was

determined by applying wage rates effective July 1, 2024, to the number of test-year hours worked by each employee. The allocation factors were applied to the wages of the City Clerk and Operations Manager.

(F) Employee Benefits – Health Insurance. The city of Augusta provides different levels of health insurance benefits to the City Clerk and to the three full-time employees dedicated to operation of the water treatment plant. The Operations Manager is not provided health care insurance.

Pursuant to the city’s current employee benefits policy, the water treatment plant employees receive single-coverage health insurance plans with each employee contributing \$29.44 per week. The clerk continues to receive coverage pursuant to a prior employee benefits policy that provides family healthcare coverage with no employee contribution.

Augusta Treatment reported \$19,003 for test-year Employee Benefits – Health Insurance expense. Based upon Augusta Treatment’s current monthly health care costs, the test-year amount was increased by \$9,555 as follows:

	Current Monthly <u>Premium</u>	Annualized <u>Cost</u>	Less: Employee <u>Contribution</u>	<u>Subtotal</u>	Times: Percent Allocated to Augusta	<u>Pro forma</u>
Total Single Policies	\$ 2,405	\$ 28,855	\$ (4,593)	\$ 24,263	100%	\$ 24,263
Total Family Policy	1,432	17,182		17,182	25%	<u>4,296</u>
Pro forma						28,558
Less: Test Year						<u>(19,003)</u>
Adjustment						<u>\$ 9,555</u>

(G) Purchased Power for Pumping. As discussed in Ref. Item (B), Purchased Power for Pumping is directly related to the volume of water produced and sold. Accordingly, test-year Purchase Power for Pumping was decreased by \$6,449 to match pumping expense to Pro forma Water Sales Revenues. Note that Pro forma Water Sales Revenues was adjusted to the 12 months ended April 30, 2024, while Purchased Power for Pumping was adjusted to the 12 months ended April 15, 2024, the end date of Kentucky Utilities’ billing cycle. The adjustment is detailed below with the pro forma information shown in bold font.

	Augusta <u>Reporting Month</u>	KU <u>Service Month</u>	Purchased <u>Power</u>	<u>Totals</u>
Test Year	July 2022	June 2022	\$ 7,565	
	August	July	7,216	
	September	August	7,363	
	October	September	7,405	
	November	October	7,041	
	December	November	7,215	
	January 2023	December	7,529	
	February	January 2023	8,301	
	March	February	6,388	
	April	March	6,340	
	May	April	6,763	
Pro forma	June	May	8,287	\$ 87,413
	July	June	8,052	
	August	July	7,519	
	September	August	6,654	
	October	September	6,377	
	November	October	5,731	
	December	November	5,866	
	January 2024	December	6,493	
	February	January 2024	3,104	
	March	February	10,040	
	April	March	6,704	
	May	April 15, 2024	6,137	80,964
				<u>\$ (6,449)</u>

(H) Chemicals-Water Treatment, Accrual Basis Accounting. Test-year Chemicals-Water Treatment expense was reported in the amount of \$30,870 using a cash-basis of accounting. As discussed below, the test-year amount was increased by \$5,900 to \$36,770 to convert from cash-basis accounting to accrual accounting.

On June 28, 2022, two days before the beginning of the test year, Augusta Treatment paid for water treatment plant chemicals that cost \$8,881.24. Using cash-basis accounting, Augusta Treatment expensed the entire amount in FYE June 30, 2022. The invoiced order date and ship date for these chemicals was June 22, 2022. The received date is unclear. Assuming the received date was June 22, 2022, and a portion of these chemicals remained in inventory until the next shipment date, October 5, 2022, this batch of chemicals remained

in service for 105 days with a cost of \$84.58 (\$8,881.24 / 105 days) per day. Using accrual accounting, \$761 of the chemical cost would be expensed in FYE June 30, 2021, and \$8,120 would be expensed in the test year as demonstrated below.

	<u>FYE 6/30/22</u>	<u>Test Year</u>
Number of Days Used	9	96
Times: Cost Per Day	<u>\$ 84.58</u>	<u>\$ 84.58</u>
Expense	<u>\$ 761</u>	<u>\$ 8,120</u>

On May 5, 2023, Augusta Treatment received a batch of chemicals with a cost of \$4,525 that was charged to test-year expenses. It is estimated that these chemicals remained in service for approximately 108 days. Using accrual accounting, these chemicals would be expensed during the test-year and FYE June 30, 2024 as follows.

	<u>Test Year</u>	<u>FYE 6/30/24</u>
Number of Days Used	55	53
Times: Cost Per Day	<u>\$ 41.89</u>	<u>\$ 41.89</u>
Expense	<u>\$ 2,304</u>	<u>\$ 2,220</u>

The net increase to test-year Chemicals-Water Treatment expense necessary to convert from cash-basis accounting to accrual accounting is \$5,900 (\$8,120-\$2,220).

(I) Chemicals-Water Treatment as of April 30, 2024. As discussed in Ref. Item (B), the amount of chemicals used to treat water is directly related to the volume of water produced and sold. To properly match pro forma revenues and expenses, pro forma Chemical-Water Treatment costs were adjusted to the level of expense reported as of April 30, 2024 using accrual accounting.

The cash-basis pro forma expense as of April 30, 2024, is \$31,906. This amount was decreased by \$4,160 to convert to an accrual basis of accounting. On March 20, 2024, and April 10, 2024, chemicals were shipped to the Treatment Department at the cost of \$5,151 and \$1,336, respectively. Payment for the chemicals was made during the pro forma period ended April 30, 2024. It is estimated these chemicals will remain in service for 105 days. Using accrual accounting, \$2,328 would be expensed in pro forma operations as calculated below.

	<u>20-Mar</u>	<u>10-Apr</u>	<u>Total</u>
Total Cost	\$5,151.40	\$ 1,336.20	\$ 6,487.60
Days in Service	<u>105</u>	<u>105</u>	<u> </u>
Cost Per Day	\$ 49.06	\$ 12.73	
Pro forma Days in Service	<u>42</u>	<u>21</u>	
Pro Forma Expense April 30, 2024	\$ 2,061	\$ 267	\$ 2,328
Less: Cash Basis Expense	<u>(5,151)</u>	<u>(1,336)</u>	<u>(6,488)</u>
Decrease for Accrual Basis	<u>\$ (3,091)</u>	<u>\$ (1,069)</u>	<u>\$ (4,160)</u>

As a result of the aforementioned adjustments, pro forma Chemicals-Treatment Plant expense was determined to be \$27,746 requiring a decrease of \$9,023 to the test-year accrual basis expense. The following table details the activity in the Chemicals-Treatment Plant general ledger account for the test-year and pro forma operations. The table also details the calculation of the adjustment to the test-year expense with the pro forma information shown in bold font.

Chemicals - Water Treatment

		Cash Basis	Totals	Accrual Basis	Totals
	June 2022	\$ 8,881		\$ 761	
Test Year	July 2022	-		8,120	
	August	3,131		3,131	
	September	-		-	
	October	6,548		6,548	
	November	1,190		1,190	
	December	6,567		6,567	
	January 2023	-		-	
	February	8,910		8,910	
	March	-		-	
	April	-		-	
Pro forma	May	4,525		1,047	
Total Test Year	June	-	\$ 30,870	1,257	\$ 36,770
	July	-		1,299	
	August-Accrued from Prior Year			922	
	August-Paid	8,304		8,304	
	September	1,954		1,954	
	October	-		-	
	November	-		-	
	December	9,966		9,966	
	January 2024	671		671	
	February	-		-	
	March	5,151		2,061	
Total Pro forma	April	1,336	31,906	267	<u>27,746</u>
	Adjustment - Decrease			<u>\$ (9,023)</u>	

(J) Amortize Cost of Engineering Study. As required by the 2021 Agreement, Augusta Treatment coordinated with Bracken District to contract a professional engineer to conduct a comprehensive evaluation of the water treatment plant facility to identify any changes to the methods of operations and capital improvements necessary to improve the plant's efficiency and ensure compliance with state and federal regulations. The total \$25,000 cost of the study was reported in test-year Repairs expenses.

Although for accounting purposes the cost of the study is an expense that may be charged against income in a single reporting period, it was treated as a regulatory asset amortized over the anticipated three-year life of the wholesale water rates calculated in this

analysis. Three-year amortization requires a \$16,667 decrease to test-year expenses calculated as follows.

Cost of Engineering Study	\$ 25,000
Divide by: 3 years	<u>3</u>
Annual Recovery	8,333
Less: Test Year	<u>(25,000)</u>
Decrease	<u><u>\$ (16,667)</u></u>

(K) Capitalize Cost of New Air Compressor. During the test year, Augusta Treatment incurred \$8,086 to replace an air compressor tank that was installed as a part of the original 1996 water treatment plant construction. The tank’s \$8,086 cost was reported as a test-year Repairs expense. The cost of the new tank was removed from test-year expenses and capitalized for depreciation over the water treatment plant’s remaining 10-year depreciable life. The annual recovery for depreciation is \$809 as calculated below.

Cost of Replacement Air Compressor	\$ 8,086
Divide by: 10 years	<u>10</u>
Annual Depreciation Recovery	<u><u>\$ 809</u></u>

(L) Amortize Legal Fees. Augusta Treatment incurred \$10,269 for legal fees in connection with the malfunctioning master meter previously discussed in Ref. Item (C). Augusta Treatment recognized \$2,142 in the test year and \$8,127 in the FYE June 30, 2022. Although for accounting purposes these legal fees are an expense that may be charged against income in the year the legal services were received, for rate-making purposes they should be treated as a regulatory asset amortized over the anticipated life of the rates calculated in this analysis, three years. Three-year amortization requires a \$1,282 increase to test-year expenses calculated as follows:

Legal Fees Meter Case	\$ 10,269
Divid by: 3 years	<u>3</u>
Annual Recovery	3,423
Less: Test Year	<u>(2,142)</u>
Increase	<u>\$ 1,282</u>

(M) Rate Case Expense. Augusta Treatment anticipates that the total cost of professional services incurred to prepare this rate analysis will be \$8,250. This amount was amortized over the anticipated 3-year life of the wholesale rate calculated in this analysis. Accordingly, test-year expenses were increased by \$2,750 (\$8,250 total cost / 3 years).

(N) Insurance - General Liability. Augusta Treatment obtains general liability insurance from Kentucky League of Cities Insurance Services. The test-year insurance expense was \$11,039, but the amount decreased to \$8,401 for FYE June 30, 2024. Accordingly, test-year expenses were reduced by \$2,638 to allow for rate recovery of \$8,401.

(O) Depreciation. Augusta Treatment reported \$104,882 for test-year depreciation expense. This amount was reduced by \$42,822 to remove depreciation on assets for which full depreciation had accrued in pro forma operations and to remove depreciation accrued on plant financed through debt proceeds as required by provision 16. g. of the 2016 Contract, which states:

“Depreciation expense shall be included in calculation of the Water Treatment Plant’s operating costs, but only such depreciation expense on plant and facilities whose cost is not financed through the issuance of debt and that are in service at the time of the propose rate adjustment.”

Calculation of pro forma depreciation without debt financed plant is shown in the following table.

<u>Water Treatment Plant In Service</u>	<u>Service Life</u>	<u>Depreciable Basis for Reporting Purposes</u>	<u>Debt Financed not Depreciable Through Rates Pursuant to 2016 Contract, Provision 16.g.</u>	<u>Adjusted Depreciable Basis for Rate-Making Purposes</u>	<u>Accumulated Depreciation at 6/30/24</u>	<u>Net Plant at 6/30/24</u>	<u>Pro Forma Depreciation Expense</u>
1996 Water Treatment Plant	38	\$ 2,882,702	\$ (1,500,000)	\$ 1,382,702	\$ 2,092,273	\$ 790,429	\$ 36,387
1998 Additions	38	89,512		89,512	63,600	25,912	2,356
2002 Engineering	38	32,000		32,000	18,526	13,474	842
2005 Lagoon	38	487,855	(100,000)	387,855	244,996	242,858	10,207
2006 Well Recharge	38	209,847		209,847	100,317	109,530	5,522
2006 Air Compressor	10	7,825		7,825	7,825	(0)	782
2010 Radios	15	14,115		14,115	13,409	706	706
2011 Pump	10	1,669		1,669	1,669	(0)	
2012 Pump and Motor	10	56,249		56,249	56,249	-	
2013 Motor	10	6,867		6,867	6,867	(0)	
2014 Pump	10	1,650		1,650	1,650	-	
2013 12" Spool Injection Line	10	7,985		7,985	7,784	200	200
2014 Aeration Disc	10	6,370		6,370	6,370	(0)	
2014 Diaphragm Meter Pump	10	1,829		1,829	1,799	30	30
2014 Benchtop Meter	10	1,098		1,098	1,053	46	46
2014 Spectrophotometer	10	3,955		3,955	3,791	165	165
2015 Backflow Preventer	10	6,124		6,124	5,511	613	613
2014 Furnance	10	5,800		5,800	5,510	290	290
2019 Master Meter BCWD	10	3,313		3,313	1,739	1,574	331
2018 Chemical Feed Pump	10	2,797		2,797	1,609	1,189	280
2020 Polymer Pump	10	2,907		2,907	1,260	1,647	291
2020 AC/Furnance	10	8,946		8,946	3,653	5,294	895
2022 VS Pump	10	4,189		4,189	873	3,316	419
2023 Chevy Colorado	5	8,500		8,500	2,125	6,375	1,700
Total		<u>\$ 3,854,103</u>					62,060
Less: Test-Year Expense							<u>(104,882)</u>
Adjustment - Decrease							<u>\$ (42,822)</u>

(P) Depreciation – Post-Test-Year Plant Addition – New Well. Augusta Treatment’s source of raw water supply is four underground wells. Subsequent to the test-year, well no. 2 was replaced at a total cost of \$76,295. This amount includes \$9,455 incurred for repair to the underground electrical supply line to a separate well that was damaged during construction of the new well. The total cost of the new well was depreciated over 30 years as follows:

New Well No. 2

<u>Date</u>	<u>Vendor</u>	<u>Cost</u>
8/24/2023	Moody's of Dayton	\$ 23,380
9/21/2023	Moody's of Dayton	21,496
9/21/2023	Moody's of Dayton	8,964
9/21/2023	Moody's of Dayton	13,000
11/29/2023	Bess Contracting	<u>9,455</u>
Total Cost		76,295
Divide by: 30 Years		<u>30</u>
Increase to Test-Year Depreciation		<u><u>\$ 2,543</u></u>

(Q) Taxes Other Than Income Taxes. Test-year FICA taxes were increased by \$940 as follows to account for the level of taxes that Augusta Treatment will pay on pro forma wages.

Pro forma Wages	\$ 195,347
Times: FICA Tax Rate	<u>7.65%</u>
Pro forma FICA	14,944
Less: Test Year	<u>(14,004)</u>
Increase	<u><u>\$ 940</u></u>

Schedule B
ALLOCATION OF ADJUSTED TEST-YEAR OPERATING EXPENSES
City of Augusta Water Treatment Plant, Test Year Ended June 30, 2023

The table below demonstrates that, by subtracting interest income from pro forma operating expenses, the amount of pro forma operating expenses recoverable through rates is \$480,126.

Pro forma Operating Expenses	\$ 481,535
Less: Interest Income	<u>(1,409)</u>
 Pro forma Operating Expenses to be Recovered through Rates	 <u>\$ 480,126</u>

Pursuant to the 2016 Contract, Section 16.e., Augusta Distribution’s pro forma operating costs must be assigned to Bracken District based on the percentage of water delivered to each wholesale customer during the test year. Allocation of pro forma expenses using the test-year water delivery allocation factor appears below.

	Test-Year <u>Gallons</u>	<u>Percentage</u>	Expense <u>Allocation</u>
Augusta Distribution	52,539,444	23.28%	\$ 111,765
Bracken District	<u>173,162,980</u>	<u>76.72%</u>	<u>368,362</u>
 Total	 <u>225,702,424</u>	 <u>100.00%</u>	 <u>\$ 480,126</u>

Strict enforcement of the 2016 Contract, Section 16.e., requirement is not practical or reasonable in this instance considering significant adjustments were made to the test-year volume of water sold to each wholesale customer (See Schedule A, Ref. Items (B) and (D)). Accordingly, operating costs were not allocated in this analysis based on test-year water sales. They were allocated using the adjusted test-year water sales volumes as follows.

	Pro forma <u>Gallons</u>	<u>Percentage</u>	Expense <u>Allocation</u>
Augusta Distribution	42,433,508	21.55%	\$ 103,459
Bracken District	<u>154,489,118</u>	<u>78.45%</u>	<u>376,667</u>
 Total	 <u>196,922,626</u>	 <u>100.00%</u>	 <u>\$ 480,126</u>

Schedule C
DEBT SERVICE REQUIREMENT
City of Augusta Water Treatment Plant, Test Year Ended June 30, 2023

Three-Year Average in Accordance with 2016 Contract, Section 16.c. and d.

Fiscal Year End	Principal	Interest	Total
6/30/2025	\$ 57,300	\$ 28,099	\$ 85,399
6/30/2026	62,400	26,155	88,555
6/30/2027	62,500	24,127	<u>86,627</u>
Three-Year Total			260,582
Divide by: 3 Years			<u>3</u>
Three-Year Annual Average			86,861
Times: 1.20			<u>120%</u>
Three-Year Annual Average Debt Service Requirement			<u><u>\$ 104,233</u></u>

Allocation of the Debt Service Requirement to the wholesale customers using the adjusted test-year water delivery allocator is shown below.

Debt Service Allocated Based on Pro Forma Water Sales Volume

	<u>Gallons</u>	<u>Percentage</u>	<u>Total</u>
Augusta Distribution	42,433,508	21.55%	\$ 22,460
Bracken District	<u>154,489,118</u>	<u>78.45%</u>	<u>81,772</u>
Total	<u><u>196,922,626</u></u>	<u><u>100.00%</u></u>	<u><u>\$ 104,233</u></u>

The 2016 Contract, Section 16.d., limits the level of debt service allocable to Bracken District to 64 percent. Allocation of the Debt Service Requirement in accordance with the contract's limitation shifts more of the Debt Service Requirement to Augusta Distribution as follows:

Debt Service Allocated Pursuant to 2016 Contract, Section 16.d.

	<u>Percentage</u>	<u>Total</u>
Augusta Distribution	36%	\$ 37,524
Bracken District	<u>64%</u>	<u>66,709</u>
Total	<u>100%</u>	<u>\$ 104,233</u>

Schedule D
CALCULATION OF WHOLESALE WATER RATES
City of Augusta Water Treatment Plant, Test Year Ended June 30, 2023

The 2016 Contract, Section 16.i., states:

“The adjusted wholesale rate to Bracken District shall be the sum of the debt service costs and operating costs allocated to Bracken District divided by the Water Treatment Plant’s **test period sales** to Bracken District.”

As previously discussed in Schedule B, calculations made in this analysis using “test period sales” is not practical or reasonable given the significant adjustments made to the test-year volume of water sold to wholesale customers. The wholesale rates calculated below were determined using the adjusted test-year water sales volumes. The debt service component of the rate calculation was allocated in accordance with the 2016 Contract, Section 16.d.

	Augusta Distribution	Bracken District
Expense Allocation	\$ 103,459	\$ 376,667
Debt Service Allocation, 36 / 64	37,524	66,709
Revenue Required	140,983	443,376
Divide by: Adjusted Test-Year Gallons	42,434	154,489
Rate Per Thousand Gallons	\$ 3.322	\$ 2.870

Disregarding the contractual 64 percent debt service allocation limit, the rate would be unified at \$2.97 as follows:

	Unified Rate
Expense Allocation	\$ 480,126
Debt Service Allocation	104,233
Revenue Required	584,359
Divide by: Adjusted Test-Year Gallons	196,923
Rate Per Thousand Gallons	\$ 2.967