

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MCCREARY ) CASE NO.  
COUNTY WATER DISTRICT FOR AN ) 2021-00300  
ALTERNATIVE RATE ADJUSTMENT )

ELECTRONIC APPLICATION OF MCCREARY ) CASE NO.  
COUNTY WATER DISTRICT FOR AN ) 2021-00301  
ALTERNATIVE RATE ADJUSTMENT )

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION  
TO MCCREARY COUNTY WATER DISTRICT

McCreary County Water District (McCreary District), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested is due on May 2, 2022. The Commission directs McCreary District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the

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

person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

McCreary District shall make timely amendment to any prior response if McCreary District obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which McCreary District fails or refuses to furnish all or part of the requested information, McCreary District shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, McCreary District shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Provide copies of the 1099's or W2's that McCreary District issued to the members of its board of commissioners in calendar years 2018, 2019, 2020, and 2021.
2. a. Explain whether McCreary District qualifies as a tax-exempt organization under Internal Revenue Code (IRC) 501(c)(3).

b. If the response to Item 2.a. is IRC 501(c)(3) is not applicable, explain whether McCreary District is a tax-exempt organization for federal and state income tax purposes and how do it qualifies as an exempt organization.

3. Provide McCreary District's position regarding the following Internal Revenue Service statement on the payment of fees/salaries to members of a governing board of a tax-exempt organization.

Directors of a corporation - members of the governing board - are defined by statute as non-employees. If an exempt organization pays its board members to attend board meetings or otherwise compensates them for performing their duties as directors, the organization should treat them as independent contractors. (The director fee is reported on Form 1099-NEC.) This is the most common type of statutory non-employee that may be involved in an exempt organization.<sup>2</sup>

4. Refer to McCreary District's response to the Commission Staff's Report (filed April 4, 2022) (McCreary District's Response), page 3, the Sanitary Sewer Collection System Phase I Project.

a. Provide the date that McCreary District estimates that Phase 1 of its Sanitary Sewer Collection System Phase I Project (Phase 1) will be completed.

b. Identify the number of customers that currently reside along phase 1 of the sewer force main extension.

c. McCreary District estimates that the additional 405 customers will generate \$57,348 in additional revenues. Provide the supporting calculations and the assumptions that McCreary District used to calculate the expected revenue impact for the

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<sup>2</sup> Exempt Organizations: Who Is a Statutory Non-Employee? Internal Revenue Service (irs.gov)

additional customers. Include copies of any documentation used by McCreary District to calculate its estimate.

d. Provide the estimated cost McCreary District will incur to provide sewer service to the additional 405 customers. Include copies of any documentation used by McCreary District to calculate its cost estimate.

e. Provide calculations of the projected impact the competition Phase 1 will have on annual depreciation expense.

5. Refer to McCreary District's Application in Case No. 2020-00399,<sup>3</sup> page 4. McCreary District stated that Phase 1 will provide the infrastructural foundation for later expansions of McCreary District's collection system and increase the economic viability of McCreary District's sewer operations by the addition of approximately 305 customers.

a. Given McCreary District's statement that Phase 1 is the infrastructural foundation for latter expansions, provide the following: (1) identify each projected phase of McCreary District's collection system expansion; (2) provide a detailed explanation of each construction phase; (3) provide the estimated cost for each construction phase; (4) identify the date construction will begin for each phase and the expected in service date of each phase; (5) the number of customers that McCreary District expects to add when each construction phase is placed into service; and (6) the expected impact each phase will have on the sewer division's revenues and expenses.

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<sup>3</sup> Case No. 2020-00399, *Electronic Application of McCreary County Water District for Authorization to Execute an Assistance Agreement with the Kentucky Infrastructure Authority and for a Certificate of Public Convenience and Necessity to Construct the Sanitary Sewer Collection System Expansion Phase 1 Project* (Ky. PSC Mar. 24, 2021).

b. Provide cites in the application where McCreary District estimated that an additional 100 sewer customers will be added to its sewer system at the competition of Phase 1.

6. Refer to McCreary District's Response at 3. McCreary District's claim that the expansion of Fibrotex USA operations at the end of 2022 will result in the doubling of water purchases and additional revenues of \$49,761 for the sewer division.

a. Provide the calculations and the assumptions that McCreary District used to calculate the expected revenue impact of Fibrotex USA's expansion of operations. Include copies of any documentation used by McCreary District to calculate its estimate.

b. Provide the estimated impact the Fibrotex USA expansion will have on McCreary District's sewer expenses. Include copies of any documentation used by McCreary District to calculate its expense estimates.

7. In its procedural Order issued October 8, 2021, the Commission made the following finding: "If Commission Staff finds that changes should be made to the manner in which McCreary District accounts for the depreciation of McCreary District's assets, McCreary District in its response to the Commission Staff Report shall also state its position in writing on whether the Commission should require McCreary District to implement the proposed change for accounting purposes."<sup>4</sup> Provide McCreary District's position regarding implementing for accounting purposes the Commission Staff's proposed depreciation life changes for the water and sewer divisions.

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<sup>4</sup> Order (Ky. PSC Oct. 8, 2021) at 4.



Linda C. Bridwell, PE  
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DATED APR 21 2022

cc: Parties of Record

Case No. 2021-00300  
Case No. 2021-00301

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