


COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BARKLEY LAKE)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2021-00454
PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is given that, in accordance with the Commission's Order of January 5, 2022, the attached report containing the recommendations of Commission Staff regarding the Barkley Lake Water District's (Barkley Lake District) proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's January 5, 2022 Order, Barkley Lake District is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of this report. The Commission directs Barkley Lake District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.


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

DATED APR 28 2022

cc: Parties of Record

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

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COMMISSION STAFF'S REPORT ON
BARKLEY LAKE WATER DISTRICT

Barkley Lake Water District (Barkley Lake District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 5,434 residential customers, 92 commercial customers, and 5 industrial customers that reside in Caldwell, Christian, and Trigg counties, Kentucky.¹ On December 15, 2021, Barkley Lake District filed an application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Order in Case No. 2021-00323.² Barkley Lake District's last base rate increase was Case No. 1997-00313.³ To ensure the orderly review of the application, the Commission established a

¹ *Annual Report of Barkley Lake Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

² Case No. 2021-00323, *Electronic Application of the Carroll County Water District No. 1 for Approval to Issue Securities in the Approximate Principal Amount of \$3,145,000 for the Purpose of Refinancing Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Sept. 17, 2021) at 7 and 8, ordering paragraph 5.

³ Case No. 1997-00313, *In the Matter of the Adjustment of Rate of the Barkley Lake Water District* (Ky. PSC Oct. 21, 1997).

procedural schedule by Order dated January 5, 2022. Barkley Lake District responded to three discovery requests from Commission Staff.

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. The Commission Staff notes that in Barkley Lake District’s 2020 Annual Report, Barkley Lake District reported a water loss of 14.87 percent.⁴ At 14.87 percent water loss, the total annual cost to Barkley Lake District is \$41,821.⁵

To comply with the requirements of 807 KAR 5:076, Section 9,⁶ Barkley Lake District used the calendar year ended December 31, 2020, as the basis for its application. Using the Debt Service Coverage (DSC) method and its pro forma test-year operations, Barkley Lake District determined that a revenue increase of \$155,315, or 5.97 percent, over test-year normalized revenues of \$2,603,677, is warranted⁷ as shown in the table below. The proposed rates requested by Barkley Lake District would increase the

⁴ 2020 Annual Report at 57.

⁵

	Purchased Power	Chemicals
Purchased Power from 2020 Annual Report	\$ 158,317	\$ 122,925
Times: Total Water loss	14.87%	14.87%
Total Water Loss	\$ 23,542	\$ 18,279
Total	\$ 23,542	\$ 41,821

⁶ 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.

⁷ Application, Attachment 5.

residential monthly bill of a typical residential customer using 4,000 gallons per month by \$2.18, from \$36.46 to \$38.64, or approximately 5.99 percent.⁸

	<u>Barkley Lake Water District</u>
Pro Forma Operating Expenses	\$ 2,249,081
Plus: Avg. Annual Principal and Interest Payments	473,671
Additional Working Capital	<u>94,734</u>
Total Revenues Requirement	2,817,486
Less: Other Operating Revenue	(4,592)
Non-operating Revenue	(29,415)
Interest Income	<u>(24,487)</u>
Revenue Required From Water Sales	2,758,992
Revenue from Sales at Present Rates	<u>(2,603,677)</u>
Required Revenue Increase	<u>155,315</u>
Percentage Increase	<u><u>5.97%</u></u>

To determine the reasonableness of the rates requested by Barkley Lake District, Commission Staff performed a limited financial review of Barkley Lake District’s test-year operations. The scope of Commission Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable⁹ changes to test-year operations were identified and adjustments made

⁸ Application, Attachment 1, Customer Notice.

⁹ 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, *The 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); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Barkley Lake District's Overall Revenue Requirement. Eddie Beavers reviewed Barkley Lake District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, as generally accepted by the Commission, Commission Staff found that Barkley Lake District's required revenue from water sales is \$2,990,264 to meet the Overall Revenue Requirement of \$3,046,619 and that a \$385,387 revenue increase, or 14.85 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Barkley Lake District proposed to increase all its monthly retail and wholesale water service rates by approximately 5.97 percent across the board. Barkley Lake District has not performed a cost of service study (COSS). Barkley Lake District stated that it did not complete a COSS at this time as there has been no material changes in the water system.¹⁰

The Commission has previously found that the allocation of a revenue increase 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. Finding no such evidence in this case, Commission Staff has followed the method previously accepted by the Commission and has allocated the

¹⁰ Barkley Lake District's Response to Commission Staff's First Request of Information (Staff's First Request) (filed Feb. 18, 2022), Item 13.

\$386,271 revenue increase evenly across the board to Barkley Lake District's monthly retail and wholesale water service rates.

The rates set forth in Appendix A to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,990,264 Revenue Required from Rates, an approximate 14.85 percent increase. These rates will increase a typical residential customer's monthly water bill from \$36.46 to \$41.88, an increase of \$5.42, or approximately 14.87 percent.¹¹

3. Nonrecurring Charges. Following the Commission's recent decisions,¹² Commission Staff has reviewed Barkley Lake District's Nonrecurring Charges. The Commission 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. Commission Staff has reviewed the most recent cost justification information provided in the Tariff Filing TFS 2013-00399 and in response to Commission Staff's First Request.¹³ Such adjustments result in the following revised Nonrecurring Charges:

¹¹ The typical residential customer uses approximately 4,000 gallons per month.

¹² Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

¹³ TFS 2013-00399, *Tariff Filing of Barkley Lake District* (PSC Letter, Jan. 21, 2013); and Barkley Lake District's Response to Commission Staff's First Request (filed Feb. 18, 2022), Item 15.

Nonrecurring Charges

Meter Re-Read Charge	\$25.00
Meter Test Charge	\$25.00
Meter Damage	Actual Cost
Meter Lock Charge	\$10.00
Meter Unlock Charge	\$6.00
Meter Unlock Charge AH	\$64.00
Returned Check Charge	\$5.00
Service Termination Field Collection Charge	\$10.00

The adjustments to the Nonrecurring Charges result in a pro forma of \$1,696 for the test year for Miscellaneous Service Revenues and as shown below.¹⁴

	Num.	Current Rate	Total	Revised Rate	Adj.	Pro Forma
<u>Miscellaneous Service Revenues:</u>						
Meter Lock Charge	91	\$20	\$1,820	\$10	(\$910)	\$910
Meter Unlock Charge	57	\$20	\$1,140	\$6	(\$798)	\$342
Meter Unlock Charge AH	1	\$75	\$75	\$64	(\$11)	\$64
Returned Check Charge	28	\$35	\$980	\$5	(\$840)	\$140
Service Termination Field Collection Charge	24	\$25	\$600	\$10	(360)	240
Total Miscellaneous Service Revenues			\$4,615		(2,919)	1,696

PRO FORMA OPERATING STATEMENT

Barkley Lake District's Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Commission Staff, appears below.

¹⁴ Barkley Lake District's Response to Staff's First Request, Item 4. Barkley Lake District collected \$699 for the Returned Check Charge, which is not the full amount that should have been collected had they charged the correct \$35 charge for each occurrence.

	<u>Test Year</u>	<u>Adjustment</u>	<u>(Ref.)</u>	<u>Pro Forma</u>
Operating Revenues				
Total Metered Water Sales	\$ 2,315,474	\$ 143,335	(A)	\$ 2,458,809
Sales for Resale	144,868			144,868
Other Water Revenues	4,592			4,592
Miscellaneous Service Revenue		1,696	(B)	1,696
Total Operating Revenues	2,464,934	145,031		2,609,965
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	698,333	19,634	(C)	717,967
Salaries and Wages - Officers	9,000			9,000
Employee Pensions and Benefits	521,404	(142,665)	(D)	
		(34,998)	(E)	
		(4,616)	(F)	339,125
Purchased Water				-
Purchased Power	158,317			158,317
Chemicals	122,925			122,925
Materials and Supplies	220,415			220,415
Contractual Services	77,859			77,859
Transportation Expenses	32,381			32,381
Insurance	45,054			45,054
Bad Debt Expense	3,033			3,033
Miscellaneous Expense	6,823			6,823
Total Operation and Maintenance Expenses	1,895,544	(162,645)		1,732,899
Depreciation	661,448	(108,151)	(G)	553,297
Taxes Other Than Income	57,186	1,502	(H)	58,688
Utility Operating Expenses	2,614,178	(269,293)		2,344,885
Net Operating Income	(149,244)	414,324		265,080
Interest and Dividend Income	24,486			24,486
Nonutility Income	29,415	(3,834)	(B)	25,581
Income Available to Service Debt	\$ (95,342)	\$ 410,490		\$ 315,147

(A) Billing Analysis Adjustment. Barkley Lake District proposed to increase its test-year revenues from water sales of \$2,315,474 by \$143,335 to reflect the increase in rates made during the test year, which were adjusted as a condition for federal financing

of a construction project.¹⁵ Barkley Lake District's adjustment meets the ratemaking criteria of being known and measurable and Commission Staff accepts the adjustment in Pro Forma operations.

(B) Miscellaneous Service Revenues. Barkley Lake District reported that it collected \$4,334 from nonrecurring charges during the test year.¹⁶ However, Barkley Lake District did not report any income aside from Metered Water sales, Sales for Resale, and Late Fees.¹⁷ Commission Staff was unable to locate all the revenue for nonrecurring charges on its general ledger that corresponded to Barkley Lake District's response to Staff's First Request except for \$3,135 located in account 471.2 Lock Fees, and \$699.40 in 471.4 Returned Check Fees, which were reported as part of Nonutility Income.¹⁸ Commission Staff concludes that most of the Nonrecurring Charges are recorded as part of the metered water sales to customers.¹⁹ Adjustment (A) indicated in the Pro Forma Operating Statement above would remove the revenue related to Nonrecurring Charges from the metered sales, but an additional adjustment to Miscellaneous Service Revenues and Nonutility Income is necessary. An adjustment to Nonutility Income of \$3,834 is

¹⁵ Case No. 2020-00255, *Electronic Application of the Barkley Lake Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Sept. 2, 2020); Application, Attachment 5, Adjustment A.

¹⁶ Barkley Lake District's Response to Staff's First Request, Item 4.

¹⁷ Application, Attachment 5.

¹⁸ Barkley Lake District's Response to Commission Staff's First Request (filed Feb 18, 2022), Item 1a, 2020 General Ledger.

¹⁹ Commission Staff called Barkley Lake District on April, 4, 2022, and spoke to the Office Manager. The majority of nonrecurring charges are attached to the next customer's monthly bill. Therefore, Commission Staff concluded that the charge is recorded as part of the monthly metered water sales when the customer pays their monthly water bill.

necessary to remove Miscellaneous Service Revenues reported as such. As discussed above, pro forma Miscellaneous Service Revenues should be \$1,696. Therefore, Commission Staff made a net adjustment that increased Miscellaneous Service Revenues by \$1,696 and decreased Nonutility Income by \$3,834.

(C) Salaries and Wages - Employees. In its application, Barkley Lake District proposed an adjustment to decrease Salaries and Wages - Employees Expense by \$16,343.²⁰ The adjustment was proposed to account for decreases in the number of employees and pay increases subsequent to the test year. Barkley Lake District provided the total number of hours worked during the test year, job responsibilities, and salaries.²¹ Subsequent to the test year, four employees retired or quit, one employee was promoted to an empty position, and two employees were hired.²² In addition to personnel changes, all employees received an average 4.00 percent raise. Barkley Lake District also submitted a current list of Employees,²³ pay rates, and job responsibilities.²⁴ Based upon the revisions, Commission Staff calculated pro forma Salaries and Wages - Employees expense as \$717,967. Therefore, Commission Staff made an increase to Salaries and Wages - Employees of \$19,634 as shown below.

²⁰ Application, Adjustment B.

²¹ Barkley Lake District's Response to Commission Staff's First Request (filed Feb 18, 2022), Items 1f and 1g.

²² Barkley Lake District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Mar 18, 2022), Item 3.

²³ Barkley Lake District's Response to Staff's Second Request, Item 3.

²⁴ Barkley Lake District's Response to Staff's Second Request, Item 4.

Test Year hours with Current Wages

Employee Position	Total Hours	Test Year Normal Hours	Current Wages Rates	Pro Forma Normal Wages	Test Year Overtime Hours	Current Overtime Rates	Pro Forma Overtime Wages	Test Year Double Time Hours	Current Double Time Rates	Pro Forma Double Time Wages	Total Pro Forma Wages
Part Time Employee	857	857	\$ 13.00	11,143		\$ 19.50	-	-	\$ 26.00	\$ -	\$ 11,143
Computer Tech	2,115	2,078	19.01	39,503	29	28.52	833	8	38.02	304	40,336
Meter Reader	2,105	2,073	14.40	29,851	25	21.60	542	7	28.80	202	30,394
Plant Operator	2,095	1,988	19.21	38,189	11	28.82	305	96	38.42	3,688	38,494
Distribution	2,262	2,065	18.48	38,157	185	27.72	5,133	12	36.96	453	43,289
Part Time Employee	545	519	19.07	9,891	1	28.61	16	26	38.14	992	9,907
General Manager	2,080	2,080	32.28	67,142		48.42	-		64.56	-	67,142
Distribution	2,080	2,080	13.65	28,392		20.48	-		27.30	-	28,392
Distribution	2,260	2,079	18.83	39,155	175	28.25	4,955	5	37.66	186	44,110
Distribution	2,279	2,073	16.78	34,788	196	25.17	4,939	10	33.56	321	39,727
Plant Operator	2,134	2,024	25.79	52,199	54	38.69	2,085	56	51.58	2,888	54,284
Plant Operator	2,179	2,036	19.33	39,356	98	29.00	2,855	44	38.66	1,717	42,211
Plant Operator	2,080	2,080	13.12	27,290		19.68	-		26.24	-	27,290
Distribution Manager	2,328	2,078	23.00	47,797	245	34.50	8,440	5	46.00	248	56,238
Plant Operator	2,152	2,024	18.00	36,432	71	27.00	1,923	56	36.00	2,029	38,355
Billing Clerk	2,089	2,080	17.73	36,878	9	26.60	235		35.46	-	37,113
Office Employee	2,082	2,080	18.01	37,461	2	27.02	59		36.02	-	37,520
Office Manager	2,086	2,080	28.25	58,760	6	42.38	234		56.50	-	58,994
Pro Forma Wages											717,967
Less: Test Year Wages											(698,333)
Pro Forma Adjustment											<u>\$ 19,634</u>

(D) Employee Pension and Benefits - Retirement Contribution. In its application, Barkley Lake District proposed an adjustment to decrease Employee Pensions and Benefits by \$214,676.²⁵ The adjustment was the net result of two calculations. The first calculation was to decrease County Employee Retirement System (CERS) contributions by \$3,932 to account for the proposed decrease in Employee Salaries and Wages, and a decrease of \$170,288 in order to account for the amount reported to retirement expense in excess of the amount paid to CERS due to the requirements of Government Accounting Standards Board (GASB).²⁶ The second calculation, which is further described in Adjustment (E) below was to decrease Employee

²⁵ Application, Attachment 5, Adjustment C.

²⁶ Application, Attachment 5, Adjustment C.

Pensions and Benefits \$40,456 to account for the restriction of insurance premiums paid by Barkley Lake District for employees.

Barkley Lake District provides pension and post-retirement health care benefits to its employees by participating in CERS. As a participating member, Barkley Lake District is required to contribute a percentage of its employee wages to CERS. In the fiscal year beginning July 1, 2022, the CERS contribution rate will be 26.79 percent.²⁷ The CERS pension expense that Barkley Lake District reported in the test year conformed to the requirements of GASB No. 68 (GASB 68) and GASB No. 75 (GASB 75).

In Case No. 2016-00163,²⁸ Commission Staff discussed in great detail how reporting requirements for GASB 68 would affect a utility's income statement and balance sheet. In that proceeding, Commission Staff found that the annual pension expense should be equal to the amount of a district's contributions to CERS, which "historically have been fairly constant."²⁹ Consistent with Commission Staff's previous practice, Commission Staff decreased Employee Pensions and Benefits Expense by \$142,665 as shown below. Commission Staff recorded the test year CERS contributions by combining the Employer contribution amount of \$160,637,³⁰ the GASB 68 and GASB 75 amounts of \$150,193 and \$24,178.³¹

²⁷ Kentucky Public Pensions Authority, Contribution Rates. (<https://kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx#:~:text=CERS%20Employer%20Contribution%20Rates%20System%20Fiscal%20Year%202021,Nonhazardous%3A%2024.06%25%3A%2026.95%25%3A%20CERS%20Hazardous%3A%2039.58%25%3A%2044.33%25%20>)

²⁸ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Aug. 11, 2016) Staff Report on Marion County Water District at 11–27.

²⁹ Case No. 2016-00163, Staff Report on Marion County Water District at 25 and 26.

³⁰ Barkley Lake District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Apr 1, 2022), Item 1.

³¹ Barkley Lake District's Response to Staff's Second Request, Item 1.

Employee Pensions and Benefits

Pro Forma Salaries and Wages- Employees	\$ 717,967
Multiplied by: Employer Contribution Rate Fiscal Year 2022	<u>26.79%</u>
Pro Forma CERS- Employer Contribution	192,343
Less: Test Year CERS Contribution	<u>(335,008)</u>
Employee Pensions and Benefits Adjustment	<u><u>\$(142,665)</u></u>

(E) Employee Pensions and Benefits - Insurance Premiums. In addition to Adjustment (D) above, a second adjustment was made to account for the reduction in amount of insurance premiums provided to employees totaling \$40,456.³² Barkley Lake District proposed the adjustment to be consistent with the Labor Statistics average for an employer' share of health and dental insurance premiums.³³ Commission Staff agrees with Barkley Lake's methodology but calculated a different adjustment amount. The Commission continues to place greater emphasis on evaluating employees' total compensation packages, including 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 employer-funded health care does not meet those criteria.³⁴ In addition, Barkley Lake District also provides one

³² Application, Attachment 5, Adjustment C.

³³ Application, Attachment 5, Adjustment C.

³⁴ 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).

employee and his spouse with a Medicare supplement and prescription drug plan in lieu of the Medical Insurance paid to all other employees.

Consistent with precedent in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee’s health insurance coverage, Commission Staff reduced Barkley Lake District’s single health insurance premiums by 22 percent,³⁵ family health insurance premiums by 34 percent,³⁶ and dental insurance premiums by 60 percent³⁷ as shown in the calculations below. Accordingly, Commission Staff decreased Employee Pensions and Benefits by a net of \$34,998.³⁸

Type of Premium	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 3,037	22%	\$ (668)	\$ 2,369
Family Health Insurance	11,617	34%	(3,950)	7,667
Dental Insurance	1,008	60%	(605)	403
Life Insurance	998		-	998
Vision Insurance	47		-	47
Total Pro Forma Monthly Premium				11,484
Times: 12 Months				12
Total Annual Pro Forma Premium				137,808
Less: Test Year				(171,690)
Adjustment				<u>\$ (33,882)</u>

³⁵ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

³⁶ Bureau of Labor Statistics, Health Benefits, March 2020, Table 4, private industry workers, (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

³⁷ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Mar. 24, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Mar. 5, 2021); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

³⁸ \$33,882 + \$1,116 = \$34,998.

	Annual Contribution	Average Employee Contribution Rate	Annual Premium Adjustment	Pro Forma Annual Premium
Medicare Supplement	\$ 4,051	34%	\$ (1,377)	\$ 2,674
Prescription Drug Plan	374	34%	(127)	247
Total Annual Pro Forma Premium				2,921
Less: Test Year				(4,037)
Adjustment				<u>\$ (1,116)</u>

(F) Employee Pensions and Benefits - Commissioners' Benefits. Barkley Lake District's Board of Commissioners consist of five members to whom Barkley Lake District provides dental, vision, and life insurance coverage during the test year totaling \$4,616.³⁹ In Case No. 2019-00268,⁴⁰ the Commission found that:

Since water district commissioners are vested with all relevant powers to manage and oversee water districts,⁴¹ except for the power to fix their salary authorized by KRS 74.020(6), which is assigned to the county judge executive and fiscal court,⁴² a water district would be unable to provide its commissioners health insurance and other similar benefits without an official action by the water district commissioners.⁴³ Thus, by prohibiting water district commissioners from participating in official actions that directly benefit themselves

³⁹ Barkley Lake District's Response to Staff's First Request (filed Feb 18, 2022), Item 1j.

⁴⁰ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

⁴¹ KRS 74.020(1) ("A water district shall be administered by a board of commissioners which shall control and manage the affairs of the district."); KRS 74.070 ("All corporate powers of the water district shall be exercised by, or under the authority of, its commission."); see also KRS 65A.080(1) (requiring the governing body of each "special purpose government entity" to adopt a budget and prohibiting any "special purpose government entity" from expending funds in a manner inconsistent with their budget and any amendment thereto).

⁴² See KRS 74.020(6).

⁴³ KRS 74.020(6) presumably gives the county judge executive and fiscal court the authority to fix the salary of the water district commissioners to avoid just this issue. Further, while KRS 74.050 authorizes the water district board to establish the additional compensation, if any, to be paid to the treasurer of the board, the treasurer could avoid violating the prohibition against taking official actions that benefit him financially by properly recusing himself from such an action. Conversely, there would be no viable way for water district commissioners to provide themselves insurance benefits without involving themselves in the decision to do so.

financially, the General Assembly effectively prohibited water districts from receiving additional benefits to compensate them for their work on the board, which further indicates the General Assembly's intent to limit the total compensation of water district commissioners to amounts specifically authorized by statute. The Commission finds that the General Assembly intended to limit water districts' total compensation to commissioners for their service on a water district's board to amounts specifically authorized by KRS Chapter 74. Therefore, the Commission finds that Knott District may not offer benefits to the Commissioners on the Knott District Board of Commissioners pursuant to KRS Chapter 74 and should cease doing so immediately.

Barkley Lake District began to provide commissioners with benefits as a free add-on from the insurance provider. However, Barkley Lake District was unable to provide a copy of the fiscal court minutes, or the board meeting minutes where the benefits were authorized.⁴⁴

The Commission has found that members of a water district's board of commissioners are not entitled to receive any compensation other than that specifically authorized under KRS Chapter 74.⁴⁵ Therefore, Commission Staff decreased Employee Pensions and Benefits by \$4,616 as shown below. In addition to disallowing the expenses, Commission Staff recommends that the Commission order Barkley Lake

⁴⁴ Barkley Lake District's Response to Staff's Second Request, Item 5a.

⁴⁵ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020) at 22.

District to discontinue providing the water district commissioners any additional compensation aside from the maximum allowable pursuant to KRS 74.020(6).⁴⁶

Test Year Commissioner's Benefits					
Commissioner	Dental	Vision	Anthem Life & ADD	Anthem Life & ADD	Total
Scott Bridges	\$ 326	\$ 70	\$ 10	\$ 108	\$ 514
Mike Hyde	1,395	197	10	108	1,710
Bill Lawrence	326	70	10	108	514
Tommy Pool	757	123	5	54	939
Emmett D. Henderson	757	123	5	54	939
Total Test Year Commissioner Benefits paid					<u>\$ 4,616</u>

Additionally, Barkley Lake District was unable to provide the fiscal court minutes in which the Salaries and Wages of Commissioners was approved.⁴⁷ Therefore, Commission Staff recommends that the Commission require Barkley Lake District to seek fiscal court approval for the Commissioner's Salaries at the next session back to the date it began to pay current Commissioner's Salaries.

(G) Depreciation Expense. In its application, Barkley Lake District proposed an adjustment decreasing Depreciation expense by \$132,829.⁴⁸ To evaluate the

⁴⁶ KRS 74.020(6), Each commissioner shall receive an annual salary of not more than thirty-six hundred dollars (\$3,600), which shall be paid out of the water district fund, except that beginning January 1, 1999, and subject to subsection (9) of this section, each commissioner who completes during an educational year a minimum of six (6) instructional hours of water district management training approved by the Public Service Commission may receive an annual salary of not more than six thousand dollars (\$6,000) to be paid out of the water district fund. An educational year shall begin on January 1 and end on the following December 31. In the case of single-county districts, which shall be deemed to include districts described in subsection (1)(c) of this section, the salary shall be fixed by the county judges/executive with the approval of the fiscal court; in multicounty districts, it shall be fixed by the agreement between the county judges/executive with the approval of their fiscal courts. In fixing and approving the salary of the commissioners, the county judge/executive and the fiscal court shall take into consideration the financial condition of the district and its ability to meet its obligations as they mature

⁴⁷ Barkley Lake District's Response to Staff's Second Request, Item 6.

⁴⁸Application, Attachment 5, Adjustment D.

reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) entitled, *Depreciation Practices for Small Water Utilities* (NARUC Study). When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Upon examination, Commission Staff found several assets not depreciated at the NARUC ranges midpoints. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. After further review of Barkley Lake District's plant ledger, Commission Staff decreased Barkley Lake District's Depreciation Expense by \$108,151 to \$553,297 as shown below.

<u>Asset Group</u>	<u>Current Depreciation</u>	<u>Depreciation Adjustment</u>	<u>Pro Forma Depreciation</u>
Group: 101.21 Structures General	\$ -	\$ -	\$ -
Group: 101.2 Structures	210,644	15,298	225,942
Group: 101.21 Structures General	1,909	(974.48)	935
Group: 101.3 Pumping Equipment	-	-	-
Group: 101.4 Transmission Lines	347,562	(86,574)	260,988
Group: 101.5 Meters	51,454	(34,703)	16,751
Group: 101.6 Plant Equipment	27,209	(3,985)	23,224
Group: 101.7 Office Equipment	1,004	-	1,004
Group: 101.8 Vehicles	21,666	2,788	24,454
Total:	<u>\$ 661,448</u>	<u>\$ (108,151)</u>	<u>\$ 553,297</u>

(H) Taxes other than Income - FICA. In its application, Barkley Lake District proposed a decrease in payroll taxes of \$1,250 as a result of the proposed decrease in

Salaries and Wages - Employees.⁴⁹ However, as explained in Adjustment (C) above, Commission Staff increased Salaries and Wages Expense by \$19,634. Commission Staff calculated an increase to Taxes Other Than Income - FICA of \$1,502 as shown below. Therefore, Commission Staff increased Taxes Other Than Income – FICA by \$1,502.

Taxes other than Income- FICA	
Pro Forma Wage Adjustment	\$ 19,634
Times: 7.65 Percent FICA Rate	7.65%
FICA Adjustment	\$ 1,502

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a DSC method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;⁵⁰ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

⁴⁹ Application, Attachment 5, Adjustment B.

⁵⁰ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

	Barkley Lake Water District	Commission Staff	
Pro Forma Operating Expenses	\$ 2,249,081	\$ 2,344,885	
Plus: Avg. Annual Principal and Interest Payments	473,671	584,778	(1)
Additional Working Capital	94,734	116,956	(2)
Total Revenues Requirement	2,817,486	3,046,619	
Less: Other Operating Revenue	(4,592)	(6,288)	
Non-operating Revenue	(29,415)	(25,581)	
Interest Income	(24,487)	(24,486)	
Revenue Required From Water Sales	2,758,992	\$ 2,990,264	
Revenue from Sales at Present Rates	(2,603,677)	\$ (2,603,677)	
Required Revenue Increase	155,315	386,587	
Percentage Increase	5.97%	14.85%	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Barkley Lake District had five outstanding Bonds from the Kentucky Rural Water Finance Corporation (KRWFC).⁵¹ In its application, Barkley Lake District requested recovery of the average annual principal and interest on its indebtedness totaling \$473,671.⁵² Commission Staff calculated an alternate amount using a five-year average of the annual principal, and interest and fee payments for the years 2022 through 2026. As shown below, Commission Staff calculated an average annual principal and interest payment of \$584,778.

⁵¹ Case No. 2010-00301, *Application of Barkley Lake Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Aug 17, 2010); Case No. 2012-00266, *Issue Securities in Principal Amount of \$1,405,000* (Ky. PSC Aug 2, 2012); Case 2014-00251, *Application of Barkley Lake Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC July 29, 2014); and Case No. 2020-00326, *Electronic Application of the Barkley Lake Water District to Issue Securities in the Approximate Principal Amount of \$5,230,000 for the Purpose of Refunding and Reamortizing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Nov. 2, 2020).

⁵² Application, Attachment 6.

2022-2026 Five-Year Average of Debt Payments

Year	Series 2010B-1		Series 2010B-2		Series 2012E		Series 2014		Series 2020I		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2022	\$25,500	\$36,840	\$7,500	\$10,095	\$60,000	\$30,298	\$14,500	\$20,460	\$200,000	\$166,959	\$ 572,151
2023	26,500	36,075	8,000	9,870	65,000	28,378	15,000	20,048	225,000	155,909	589,779
2024	27,500	35,280	8,000	9,630	65,000	26,298	15,000	19,635	235,000	143,949	585,291
2025	28,500	34,455	8,500	9,390	70,000	24,218	15,500	19,209	250,000	131,339	591,110
2026	29,500	33,600	8,500	9,135	70,000	21,978	16,000	18,769	260,000	118,079	585,560
Total											\$ 2,923,891
Divide by: 5 years											5
Average Annual Principal and Interest Payments											<u>584,778</u>
Average Coverage on Long Term Debt											<u>116,956</u>

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

Following the Commission's historic practice, Commission Staff agrees with Barkley Lake District's methodology; however, Commission Staff utilized the average annual principal and interest payments calculated above. Therefore, as shown below, \$116,956 is included in the revenue requirement.

Average Annual Principal and Interest	\$ 584,778
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	701,734
Less: Average Annual Principal and Interest	<u>(584,778)</u>
Additional Working Capital	<u>\$ 116,956</u>

Signatures

/s/ William M. Foley

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

/s/ Eddie Beavers

Prepared by: Eddie Beavers
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO A COMMISSION STAFF'S REPORT OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00454 DATED APR 28 2022

The following rates and charges are prescribed for the customers in the area served by Barkley Lake Water District. All other rates and charges not specifically mentioned herein shall 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-Inch Meter

First	2,000 Gallons	\$25.00	Minimum Bill
Next	98,000 Gallons	0.00844	Per Gallon
Next	400,000 Gallons	0.00686	Per Gallon
Over	500,000 Gallons	0.00500	Per Gallon

1-Inch Meter

First	4,000 Gallons	\$41.86	Minimum Bill
Next	96,000 Gallons	0.00844	Per Gallon
Next	400,000 Gallons	0.00686	Per Gallon
Over	500,000 Gallons	0.00500	Per Gallon

1 1/2-Inch Meter

First	8,000 Gallons	\$75.59	Minimum Bill
Next	92,000 Gallons	0.00844	Per Gallon
Next	400,000 Gallons	0.00686	Per Gallon
Over	500,000 Gallons	0.00500	Per Gallon

2-Inch Meter

First	15,000 Gallons	\$134.59	Minimum Bill
Next	85,000 Gallons	0.00844	Per Gallon
Next	400,000 Gallons	0.00686	Per Gallon
Over	500,000 Gallons	0.00500	Per Gallon

4-Inch Meter

First	25,000 Gallons	\$218.90	Minimum Bill
Next	75,000 Gallons	0.00844	Per Gallon
Next	400,000 Gallons	0.00686	Per Gallon
Over	500,000 Gallons	0.00500	Per Gallon

Wholesale Rates

	\$0.00281	Per Gallon
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Nonrecurring Charges

Meter Re-Read Charge	\$25.00
Meter Test Charge	\$25.00
Meter Damage	Actual Cost
Meter Lock Charge	\$10.00
Meter Unlock Charge	\$6.00
Meter Unlock Charge AH	\$64.00
Returned Check Charge	\$5.00
Service Termination Field Collection Charge	\$10.00

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