

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GREEN-)	CASE NO.
TAYLOR WATER DISTRICT FOR A RATE)	2022-00246
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

This matter arises on Green-Taylor Water District's (Green-Taylor District) filing, pursuant to 807 KAR 5:076, an application requesting to adjust its water rates under the alternative rate adjustment (ARF) procedures. In the final Order in Case No. 2021-00233,¹ Green-Taylor District was ordered to file an application by August 13, 2022, for either a general adjustment in rates pursuant to 807 KAR 5:001E, Section 16, or for an alternative rate adjustment (ARF) pursuant to 807 KAR 5:076. In compliance with the Commission August 13, 2022 Order, Green-Taylor District submitted its ARF Application on August 12, 2022.

In its application, Green-Taylor District determined it required a decrease in revenues from water rates of \$3,912, or 0.14 percent.² Green-Taylor District did not seek a change in rates with its application.³

¹ Case No. 2021-00233, *Electronic Application of the Green-Taylor Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct and finance a Water System Improvements Project Pursuant to the Provisions of KRS 278.020, KRS 278.300 and 807 KAR 5:001* (Ky. PSC Aug. 13, 2021).

² Application, 4_SAO_with_Attachments.pdf, Revenue Requirements.

³ Application, 2_Reason_for_Application.pdf.

Pursuant to a procedural schedule established on September 2, 2022, and amended on December 13, 2022, Green-Taylor District responded to four discovery requests from Commission Staff. The Commission Staff's Report was issued on February 24, 2023 and Green-Taylor District filed its comments on the Commission Staff's Report on March 8, 2023.

In the Commission Staff's Report, Commission Staff found that Green-Taylor District's adjusted test-year operations support an overall revenue requirement of \$2,739,973, or an annual revenue decrease of \$142,716, or 5.21 percent, is necessary to generate the overall revenue requirement.⁴ In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue decrease evenly across the board to calculate its recommended water rates.⁵ Following past Commission precedent the Commission Staff recommended eliminating estimated labor costs from Green-Taylor District's nonrecurring charges.⁶

In its March 8, 2023, written comments, Green-Taylor District took exception to Commission Staff's adjustment to the employer County Employee Retirement System (CERS) contribution, proposed to increase Commission Staff's recommended Employee Salaries and Wages expense to reflect the six new employees that were or will be hired in 2023, proposed pro forma payroll taxes to reflect the impact the adjustment to Employee Salaries and Wages expense, and objected to the removal of labor costs from

⁴ Commission Staff's Report at 4.

⁵ Commission Staff's Report at 4-5.

⁶ Commission Staff's Report at 5.

its nonrecurring charges.⁷ Given that the test-year is calendar year 2021 and the inflation rate for 2022 was 7.08 percent, Green-Taylor District took exception to Commission Staff's failure adjust for inflation stating that a reduction in rates will impair Green-Taylor District's ability to effectively operate its system.⁸ Green-Taylor District waived its right to request a formal hearing on these issues but did request that an Informal Conference (IC) be scheduled.⁹

On March 9, 2023, Green-Taylor District filed supplemental comments to the Commission Staff's Report.¹⁰ In its supplemental comments, Green-Taylor District requested that Commission Staff adjust its recommended CERS employer contribution to reflect the CERS contributions for its new employees that have been or will be hired in 2023.¹¹

On April 13, 2023, an IC was held to discuss the recommendations made by Commission Staff in its report and to Green-Taylor District's comments to the Commission Staff's Report.¹² On April 21, 2023, Green-Taylor District submitted responses to Commission Staff's questions made at the April 13, 2023 IC.¹³

⁷ Green-Taylor District's Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Items 1- 4.

⁸ Green-Taylor District's Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 5.

⁹ Green-Taylor District's Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Conclusion.

¹⁰ Supplemental Comments to the Staffs Report dated February 24, 2023, (filed Mar. 9, 2023).

¹¹ Supplemental Comments to the Staffs Report dated February 24, 2023, (filed Mar. 9, 2023).

¹² 20230421_PSC Letter Filing IC Memo into the Record.pdf (Ky. PSC Apr. 21, 2023).

¹³ Informal conference supplemental information (filed Apr. 21, 2023).

The case now stands submitted for a decision by the Commission.

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 review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Green-Taylor District is allowed to charge its customers "only fair, just and reasonable rates."¹⁴ Further, Green-Taylor District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Green-Taylor District, a water district organized pursuant to KRS Chapter 74 in 1964, owns and operates a water distribution system through which it provides water service to approximately 5,252 residential and commercial customers in Adair, Green, Metcalf, and Taylor counties, Kentucky.¹⁵ Green-Taylor District also provides wholesale water service to the city of Greensburg and to the Larue County Water District.¹⁶ Green-Taylor District does not produce any of its own water; rather, it purchases its water from Campbellsville Municipal Water and Sewer System (Campbellsville Water), Greensburg, Green River Valley Water District, and Adair County Water District.¹⁷ A review of the

¹⁴ *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).

¹⁵ *Annual Report of Green-Taylor District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 9,12, and 49.

¹⁶ 2021 Annual Report at 56.

¹⁷ 2021 Annual Report at 54.

Commission’s records indicates this is Green-Taylor District’s first alternative rate adjustment since 2018.¹⁸

TEST PERIOD

The calendar year ended December 31, 2021, was used as the test year to determine the reasonableness of Green-Taylor District’s existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff’s Report summarizes Green-Taylor District’s pro forma income statement as follows:

	Commission Staff's Report		
	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 2,797,690	\$ 35,517	\$ 2,833,207
Operating Expenses	2,704,779	(462,936)	2,241,843
Net Utility Operating Income	\$ 92,911	\$ 498,453	\$ 591,364

REVIEW AND MODIFICATIONS TO COMMISSION
STAFF’S RECOMMENDATIONS

Green-Taylor District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff’s Report, Commission Staff proposed additional adjustments. The Commission accepts the findings and recommendations contained in the Commission Staff’s Report with the following modifications.

¹⁸ Case No. 2018-00030, *Application of Green-Taylor Water District for an Alternative Rate Adjustment*, (Ky. PSC Aug. 17, 2018).

REVENUE REQUIREMENTS

Billing Analysis. Green-Taylor District provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year ended December 31, 2021. Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$2,709,754 for all retail customers and \$28,900 for all wholesale customers is an accurate representation of the normalized test-year revenue from water sales. In the Commission Staff's Report, Commission Staff recommended an increase to Green-Taylor District's test-year retail Water Sales Revenue of \$2,631,273 by \$78,481 and year wholesale Water Sales Revenue of \$26,225 by \$2,675.¹⁹ The Commission finds that the recommended adjustments are reasonable because an examination of Green-Taylor District's billing analysis was completed by Commission Staff and its normalized revenue was based on the information provided.

Other Water Revenues – Misc. Service Revenues. In Green-Taylor District's application, it had misclassified the Forfeited Discounts of \$41,876²⁰ and made an adjustment to reclassify this amount from Miscellaneous Service Revenues to Other Water Revenues – Forfeited Discounts.

Miscellaneous Service Revenues – Nonrecurring Charges. In the Commission Staff's Report, Commission Staff followed previous Commission precedent by removing the estimated labor costs. In Green-Taylor District's response to the Commission Staff's Report, Green-Taylor District objected to Commission Staff's removal of labor costs associated with performing the activities associated with these costs. Green-Taylor

¹⁹ Commission Staff's Report at 7-8, Adjustment A.

²⁰ Commission Staff's Report at 8-9, Adjustment B.

District objection was predominantly based on it being a rural water district where the field staff travels as much as 25 miles in any direction due to the district's service territory, which takes away the field labor's ability to perform other duties. The Commission considered the evidence of the record and finds that Green-Taylor District failed to provide sufficient evidence to support its assertion that labor costs should be included in nonrecurring charges. In the Commission Staff's Report, Commission Staff recommended an adjustment of \$7,281²¹ to remove non-utility income from Miscellaneous Service Revenues and recommended adjustments to the nonrecurring charge revenues for a proforma of \$52,677.²² The Commission, having considered the evidence and reviewing the proposed changes recommended by Commission Staff, finds that these adjustments and the nonrecurring charge changes are known and measurable changes to Miscellaneous Service Revenues, are reasonable, and should be accepted.

Other Water Revenues – Forfeited Discounts. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Green-Taylor District's proposed adjustment to decrease test-year Other Water Revenues and increase Forfeited Discounts by \$41,876²³ to reflect the correction of misclassified Forfeited Discounts. The Commission finds that Green-Taylor District's Operating revenue reclassification adjustments should be accepted because they meet the ratemaking criteria of being known and measurable, and are reasonable.

²¹ Commission Staff's Report at 8-9.

²² Commission Staff's Report at 9, Adjustment C.

²³ Commission Staff's Report at 9, Adjustment C.

Misclassified Commissioner Fees. Green-Taylor District incorrectly recorded the payment of its test-year Commissioner fees of \$18,200 in the Employee Salaries and Wages expense account.²⁴ Green-Taylor District proposed to correct its misclassification error by moving its Commissioner fees of \$18,200 from Employee Salaries and Wages expense to Commissioner Salaries and Wages expense.²⁵ In the Commission Staff's Report, Commission Staff recommended accepting Green-Taylor District's proposed reclassification adjustments.²⁶ The Commission finds that Green-Taylor District's operating expense reclassification adjustments should be accepted because they meet the ratemaking criteria of being known and measurable, and are reasonable.

Employee Salaries and Wages. In the Commission Staff's Report, Commission Staff recommended that Employee Salaries and Wages expense of \$484,417 be decreased by \$64,365.²⁷ Commission Staff's pro forma Employee Salaries and Wages expense of \$420,052 was based on Green-Taylor District's current staff level as of 2022 of nine full-time employees, each full-time employee worked 2,080 regular work hours,²⁸ the actual test-year overtime hours each employee worked, and the 2022 employee wage rates.²⁹

In its March 8, 2023, written comments to the Commission Staff's Report, Green-Taylor District informed the Commission that as March 3, 2023, it had filled the open

²⁴ Commission Staff's Report at 10, Adjustment D.

²⁵ Commission Staff's Report at 10.

²⁶ Commission Staff's Report at 10.

²⁷ Commission Staff's Report at 10-12, Adjustment E.

²⁸ $40 \text{ (Regular Work Hours per Week)} \times 52 \text{ (Weeks)} = 2,080 \text{ (Annual Regular Work Hours)}$.

²⁹ Commission Staff's Report at 10-12.

operator in training position and had hired two part-time crew leaders.³⁰ Green-Taylor District added that it intended to hire an additional operator in training and an assistant office manager within four weeks to provide backup to their strained staff.³¹ Using the new employees and the projected pay raises, Green-Taylor District calculated a pro forma Employee Salaries and Wages expense of \$534,193.³²

In the Informal Conference Supplemental Information filed April 21, 2023, Green Taylor District included a table showing the dates its new employees were hired and date the operator was promoted to the General Manager position.³³ The table below is a summary of the employee information provided in the April 21, 2023 filing.³⁴

Position Title	New Hire/ Promotion Dates	Regular Hours	Over Time Hours	2022 Hourly Wage Rates	2023 Hourly Wage Rates	Totals
Bookkeeper		2,080	24.00	\$ 18.15	\$ 18.15	\$ 38,405
Manager	02/07/23	2,080	-	35.00	28.85	60,008
Operator		2,080	284.00	20.20	20.20	50,621
Office Manager		2,080	39.50	23.14	23.14	49,502
Bookkeeper		2,080		18.15	18.15	37,752
Bookkeeper		2,080	-	14.95	16.45	34,216
Operator		2,080	322.00	21.22	21.94	56,232
Operator in Training	01/02/23	2,080	96.00	15.00	17.00	37,808
Operator in Training	04/24/23	2,080	96.00		17.00	37,808
Crew Leader	02/07/23	1,248			25.00	31,200
Crew Leader	02/07/23	1,248			25.00	31,200
Assistant Office Manager	05/01/23	2,080			14.00	29,120
Operator in Training		2,080	96.00		15.00	33,360
Totals						<u>\$ 527,232</u>

³⁰ Green-Taylor District's Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 2.

³¹ Green-Taylor District's Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 2.

³² Green-Taylor District's Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 2.

³³ Green-Taylor District's April 21, 2023, Informal Conference Information, Exhibit A.

³⁴ Green-Taylor District's April 21, 2023, Informal Conference Information, Exhibit A and Exhibit C.

In reviewing the five-year employee information, the Commission discovered that on August 31, 2022, Green-Taylor District's operator/foreman position became vacant. The operator/foreman was a full-time position that Green-Taylor District paid \$22.67 per hour. The new crew leaders are part-time positions that are being paid a \$25 hourly wage and their salaries are based on estimated regular workhours of 1,248 hours per year. Green-Taylor District has not provided any evidence to document the estimated work hours, the need for the crew leader positions, nor have they provided a list of the required duties the crew leaders will perform.

The assistant office manager Green-Taylor District intended to hire within four weeks from its filed comments to the Commission Staff Report was hired on May 1, 2023, but the operator in training position has yet to be filled. Green-Taylor District estimated that its new operator training employees hired in 2023 will work 96 hours of overtime per year when there is no historical data in the employee information provided in the case record to support Green-Taylor District's estimated overtime hours.

Given the lack of documentation to support the hiring of two part-time crew leader employees, the estimated operator in training overtime hours, and the uncertainty regarding the hire date and salary of the potential new operator in training, the Commission finds that Green-Taylor District's adjustments for these employee positions fails to meet the ratemaking criteria of being known and measurable. The Commission further finds that an adjustment to reflect the promotion of the operator to general manager, the 2023 employee wage rates, the hiring of the assistant office manager, and the hiring of two new operator in training positions is supported by evidence of record and meet the ratemaking criteria of being known and measurable. Therefore, the Commission

is increasing Commission Staff's pro forma Employee Salaries and Wages expense of \$420,052 by \$6,524 as calculated in the table below.

Position Title	Reg. Hrs.	Revised Commission Staff Adj.		
		O.T. Hours	Wage Rates	Totals
Bookkeeper	2,080	24.00	\$ 18.15	\$ 38,405
Manager	2,080		28.85	60,008
Operator	2,080	284.00	20.20	50,621
Office Manager	2,080	39.50	23.14	49,502
Bookkeeper	2,080		18.15	37,752
Bookkeeper	2,080		16.45	34,216
Operator	2,080	322.00	21.94	56,232
Operator in Training	2,080		17.00	35,360
Operator in Training	2,080		17.00	35,360
Assistant Office Manager	2,080		14.00	29,120
Totals				\$ 426,576
Less: Recommended Test-Year Employee Salaries & Wages				(420,052)
Pro Forma Adjustment				\$ 6,524

Tap-on Fees. Green-Taylor District correctly recorded its test-year tap-on fee collections of \$65,400 in Account 617-4320, Tap-On Fees – Meter Connections, but incorrectly expensed the costs of its meter installations as operating expenses at the time the meters were installed.³⁵ By substituting the tap-on fees collected in 2021 for the actual meter installation costs incurred, Green-Taylor District proposed to deduct 30 percent of the collected tap-on fees, or \$19,620, from Employee Salaries and Wages expense, and the remaining 70 percent, or \$45,780, from the Materials and Supplies expense.³⁶

Green-Taylor District submitted revised cost justification sheets for its 3/4-Inch tap-on charges, that resulted in pro forma tap-on collections of \$119,602.³⁷ Commission Staff proposed to reduce Employee Salaries and Wages expense by 30 percent of the

³⁵ Commission Staff's Report at 12-13, Adjustment F.

³⁶ Commission Staff's Report at 12-13.

³⁷ Commission Staff's Report at 12-13.

\$119,602 pro forma tap-on collections or \$35,881 and to deduct the remaining 70 percent or \$83,721 from Materials and Supplies expense.³⁸ The Commission finds that Commission Staff's proposed tap-on fee adjustments meet the ratemaking criteria of being known and measurable, are reasonable, and are accepted.

County Employee Retirement System (CERS). In Commission Staff's Report, Commission Staff recommended a decrease to Green-Taylor District's Employee Pensions and Benefits Expense of \$143,760³⁹ to account for the contribution amount of pro forma wage adjustment multiplied by the CERS contribution percentage rate of 26.79 percent.

In its March 8, 2023 comments to Commission Staff's Report, Green-Taylor District described the Governmental Accounting Standards Board (GASB) 68 pension reporting requirement as an attempt to recognize the long-term unfunded pension obligation as an annual cost as it is incurred based on independent actuarial calculations.⁴⁰ According to Green-Taylor District, the purpose of GASB 68 is to match pension costs that have typically been deferred and pushed to the future, as an annual reporting requirement.⁴¹ Green-Taylor District argues that the GASB 68 pension expense calculation is not perfect and agrees with the Commission that it can fluctuate considerably, but it is a more reliable indicator of incurred costs and trends rather than relying on current cash contribution

³⁸ Commission Staff's Report at 12-13. Commission Staff incorrectly stated that Contractual Services – Other expense would be reduced by \$35,881. Adjustment F in the Pro Forma Income Statement at 9 correctly removes the \$35,881 from Employee Salaries and Wages expense.

³⁹ Commission Staff's Report at 13–14, adjustment G.

⁴⁰ Green-Taylor District's Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 1.

⁴¹ Green-Taylor District's Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 1.

levels to a pension system that is historically underfunded and responds with a “political lag.”⁴²

According to Green-Taylor District using a single time period to calculate its GASB 68 reporting requirement might distort the true nature of the historical unfunded pension liability.⁴³ Green-Taylor District claims that a three year average of the GASB 68 CERS expense would be a method that could be used to smooth out any wide fluctuations that occur using the annual actuarial calculations.⁴⁴ Using the GASB 68 CERS reported amounts for the years 2021-\$176,066; 2020-\$319,823; and 2019-\$324,526; Green-Taylor District calculated a three-year average GASB 68 requirement of \$273,472, which Green-Taylor District claims is more indicative of a “constant” cost.⁴⁵ Green-Taylor District claims that the three-year average GASB 68 reporting requirement exceeds the average contributions required by approximately \$190,000 per year.⁴⁶ Using this perspective, Green-Taylor District believes it is too optimistic to say that real recognized expense will be closer to funding flows than to projected expense.⁴⁷

⁴² Green-Taylor District’s Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 1.

⁴³ Green-Taylor District’s Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 1.

⁴⁴ Green-Taylor District’s Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 1.

⁴⁵ Green-Taylor District’s Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 1.

⁴⁶ Green-Taylor District’s Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 1.

⁴⁷ Green-Taylor District’s Comments to the Staff Report dated February 24, 2023 (filed Mar. 8, 2023), Item 1.

In a supplemental filing, Green-Taylor District proposed that Commission Staff's CERS calculation be modified to reflect its proposed Employee Salaries and Wages expense.⁴⁸ Excluding the two "Crew leaders" who are not subject to the CERS, Green-Taylor District determined that the CERS contribution should be \$471,793 resulting in an increase to Commission Staff's recommended CERS employer contribution of \$127,148.⁴⁹

The CERS Board of Trustees (CERS Board) is responsible for establishing the CERS employer contribution rate for each fiscal year.⁵⁰ The CERS Board met on December 5, 2022 and adopted the CERS Nonhazardous employer contribution rate of 23.34 percent for fiscal year 2024 that becomes effective July 1, 2023.⁵¹

The Commission Staff followed the Commission's long standing precedent of setting a water district's CERS pension expense equal to the actual employer contribution amounts the CERS Board of Trustees of a district's requires, which historically has been

⁴⁸ Supplemental Comments to the Staffs Report dated February 24, 2023, (filed Mar. 9, 2023).

⁴⁹ Supplemental Comments to the Staffs Report dated February 24, 2023, (filed Mar. 9, 2023).

⁵⁰ COUNTY EMPLOYEES RETIREMENT SYSTEM BOARD OF TRUSTEES STATEMENT OF BYLAWS AND COMMITTEE ORGANIZATION, as Adopted on September 14, 2022, at 4. Section 1.2 CERS BOARD RESPONSIBILITIES. The CERS Board shall work with an actuary, who shall be a Fellow of the Conference of Consulting Actuaries or a member of the American Academy of Actuaries. KPPA will select and contract with the actuary pursuant to KRS 78.782(2) which allows the Board to carry out its obligations in accordance with KRS 78.784. The Board shall consider and take action on the recommendations of its actuary, including, but not limited to, determining the recommended contribution rates for employers in accordance with KRS 78.510 to 78.852. [Contribution Rates - Kentucky Public Pensions Authority](#). The CERS Board sets CERS contribution rates, unless altered by legislation enacted by the General Assembly.

⁵¹ [Contribution Rates - Kentucky Public Pensions Authority](#).

“fairly constant.”⁵² The position presented by Green-Taylor District in its March 8, 2023 comments to the Commission Staff’s Report contradicts its CERS adjustment that was proposed in its application.⁵³ In its application, Green-Taylor District decreased test-year CERS expense of \$256,964 by \$126,993 stating that that the GASB reporting requirement was eliminated because it does not represent an actual payment that was made by Green-Taylor District to CERS.⁵⁴

GASB 68 requires a utility to report its portion of the unfunded pension liability in its accounting records. The CERS amount reported to comply with GASB 68 does not reflect an actual cash payment that the CERS Board requires Green-Taylor District to pay to the CERS. Allowing Green-Taylor District to include the CERS reported amount required by GASB 68 will provide additional working capital for the District and will not reduce its share of the unfunded CERS liability. Green-Taylor District has not presented any new evidence that would persuade the Commission that its past precedent regarding excluding the reporting requirement of GASB 68 for rate making purposes should be modified or revised.

The Commission finds that the methodology employed by Commission Staff to calculate the allowable CERS expense meets prior precedent regarding CERS employer

⁵² See Case No. 2021-00406, *Electronic Application of Western Fleming County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (filed Apr. 29, 2022), Commission Staff Report, Adjustment F at 12-13; (Ky. PSC Sept 19, 2022), final Order at 9; Case No. 2022-00122, *Electronic Application of South Hopkins Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (filed Sept. 23, 2022), Commission Staff Report, Adjustment E at 14-15; (Ky. PSC Feb. 14, 2023), final Order at 9; and Case No. 2022-00160, *Electronic Application of Union County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (filed Feb. 20, 2023), Commission Staff Report, Adjustment E at 19-20; (Ky. PSC May 5, 2023), final Order at 11.

⁵³ Application, 4_SAO_with_Attachments.pdf, References, Adjustment Reference H at 1.

⁵⁴ Application, 4_SAO_with_Attachments.pdf, References, Adjustment Reference H at 1.

contributions,⁵⁵ and is reasonable. The Commission further finds that adjusting the CERS employer contribution to reflect the fiscal year 2024 contribution rate of 23.34 percent meets the ratemaking criteria of being known and measurable, and is reasonable.

Applying the CERS employer contribution rate of 23.34 percent to the revised Employee Salaries and Wages expense of \$426,576 results in a decrease to Commission Staff’s pro forma Employee Pensions and Benefits expense of \$13,641 as calculated in the table below.

Pro Forma Employee Salaries & Wages - Order	\$ 426,576
Multiplied by: Employer Contribution Rate Fiscal Year 2024	<u>23.34%</u>
Pro Forma CERS - Employer Contribution	99,563
Less: Commission Staff Recommended CERS Contribution	<u>(113,204)</u>
Pro Forma Adjustment - Order	<u>\$ (13,641)</u>

Employee Pensions and Benefits – Insurance. In Commission Staff’s Report, Commission Staff recommended a decrease to Green-Taylor District’s Employee Pensions and Benefits of \$98,820⁵⁶ to reflect the adjustment of family insurance premiums paid by Green-Taylor from 100 percent to 66 percent and dental insurance premiums from 100 percent to 40 percent to be consistent Commission precedent regarding premiums paid for health benefits.

The Commission finds that adjusting Commission Staff’s recommended Employee Pension and Benefits expense to reflect the insurance benefits that will be

⁵⁵ See Case No. 2021-00013, *Electronic Application of Edmonson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 4, 2021); Case No. 2021-00241, *Electronic Application of West Shelby Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Feb. 24, 2022); Case No. 2021-00301, *Electronic Application of McCreary County Water District for an Alternative Rate Adjustment* (Ky. PSC July 27, 2022); and Case No. 2021-00369, *Electronic Application of Christian County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 17, 2022).

⁵⁶ Commission Staff’s Report at 14-16, Adjustment H.

provided to the new employees meets the ratemaking criteria of being known and measurable. In the table below, the Commission has determined that including the Health, Life, and Dental employee insurance benefits will increase Commission Staff's pro forma Employee Pensions and Benefits expense by \$13,437.

	Monthly Premium	District Contrib %	Annual Premium	Allowable Employer Share	Allowable Employer Premium
Health: Single	\$ 1,308	100%	\$ 15,696	79%	\$ 12,400
Life	45	100%	540	100%	540
Dental	69	100%	828	60%	497
Administrative		100%	0	100%	0
TOTAL	<u>\$ 1,422</u>		<u>\$ 17,064</u>		<u>\$ 13,437</u>

Purchased Water Expense. In the Commission Staff's Report, Commission Staff recommended the Commission accept Green-Taylor District's proposed adjustments to increase test-year Purchased Water expense by a net of \$4,694 to reflect two adjustments.⁵⁷ The first adjustment removed two water invoices incorrectly recorded in the test year; and the second adjustment increased purchased water expense to reflect the impact of a wholesale rate increase from Green-Taylor District's supplier, Campbellsville Water's, wholesale rate increase. The Commission finds that these adjustments result in a known and measurable change to Purchased Water expense, are reasonable, and should be accepted.

Contractual Services – Engineering. In the Commission Staff's Report, Commission Staff recommended to reduce Operating Expenses by \$31,250 to remove Contractual Services – Engineering expenses and to increase test-year Depreciation expense by \$880.⁵⁸ Commission Staff's adjustments reflect removing capital expenditures from test-year operating expenses and depreciating them over their

⁵⁷ Commission Staff's Report at 16–17, Adjustment I.

⁵⁸ Commission Staff's Report at 17-18, Adjustment J.

estimated useful lives.⁵⁹ In keeping with Commission precedent, Commission Staff depreciated the capital expenditures over the mid-point of the depreciation life range for water mains contained in the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled Depreciation Practices for Small Water Utilities (NARUC Study).⁶⁰ The Commission finds Commission Staff's adjustments to Materials and Supplies expense and Depreciation expense are reasonable and should be accepted.

Depreciation. In the Commission Staff's Report, Commission Staff recommended the Commission accept Green-Taylor District's proposed adjustment to decrease test-year depreciation expense of \$362,609 by \$5,789 to a pro forma level of \$356,820.⁶¹ Green-Taylor District's proposed adjustment is consistent with Commission precedent of using the depreciation life ranges contained in the NARUC Study.⁶² When no evidence exists to support a specific life that is inside or outside of the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC Study depreciation ranges to depreciate water assets.⁶³

⁵⁹ Commission Staff's Report at 17-18.

⁶⁰ See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); and Case No. 2020-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021).

⁶¹ Commission Staff's Report at 18-19, Adjustment K.

⁶² See Case No. 2016-00163, Nov. 10, 2016 Order; Case No. 2020-00141, Nov. 6, 2020 Order; and Case No. 2020-00311, Apr. 8, 2021 Order.

⁶³ See Case No. 2020-00290, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction* (Ky. PSC Sept. 2, 2021).

The Commission finds that Green-Taylor District's proposed depreciation adjustment is reasonable and should be accepted as it is consistent with Commission precedent. The Commission further finds that Green-Taylor District shall use the mid-point of the depreciable lives of the NARUC Study ranges to depreciate water plant assets for accounting purposes in all future reporting periods. Green-Taylor District shall not make an adjustment to accumulated depreciation or retained earnings to account for this change in the accounting estimate

Payroll Taxes. In Commission Staff's Report, Commission Staff recommended a decrease to Green-Taylor District's Payroll Tax expense by \$4,924⁶⁴ to account for the impact the Employee Salaries and Wages expense would have on the Federal Insurance Contributions Act (FICA) employer contribution. The Commission finds, based on the evidence of record, the methodology used by Commission Staff to calculate Green-Taylor District's pro forma Payroll Tax expense modified to reflect the FICA tax for the new employees, is correct. Applying the FICA Tax rate of 7.65 percent to the total Salaries and Wages expense of \$444,776,⁶⁵ the Commission is increasing Commission Staff's pro forma Payroll Tax expense by \$499.⁶⁶

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

⁶⁴ Commission Staff's Report at 19-20, Adjustment L.

⁶⁵ \$426,5767(Employee Salaries and Wages expense) + \$18,200 (Commissioner Salaries and Wages expense) = \$444,776.

⁶⁶ \$444,776 (Total Salaries and Wages expense) x 7.65% (FICA Tax rate) = \$34,025 - \$33,526 (Commission Staff Original FICA) = \$499.

	Test Year Operations	Commission Staff's Report Pro Forma Adjustments	Commission Staff's Report Pro Forma Operations	Commission Pro Forma Adjustments	Commission Pro Forma Operations
Operating Revenues:					
Total Revenue - Water Sales	\$ 2,657,498	\$ 81,155	\$ 2,738,653		\$ 2,738,653
Other Water Revenues					
Forfeited Discounts		41,876	41,876		41,876
Misc. Service Revenues	98,316	(45,639)	52,677		52,677
Other Water Revenues	41,876	(41,876)			
Total Operating Revenues	2,797,690	35,516	2,833,206	0	2,833,206
Operating Expenses:					
Operation and Maintenance:					
Employee Salaries and Wages	502,617	(18,200)			
		(64,365)			
		(35,881)	384,171	6,524	390,695
Commissioner Salaries and Wages		18,200	18,200		18,200
Employee Pensions and Benefits	433,030	(143,760)		(13,641)	
		(98,820)	190,450	13,437	190,246
Purchased Water	900,650	4,694	905,344		905,344
Purchased Power	78,273		78,273		78,273
Chemicals			0		0
Materials and Supplies	171,622	(83,721)	87,901		87,901
Contractual Services - Engineering	31,250	(31,250)	0		0
Contractual Services - Accounting	10,500		10,500		10,500
Contractual Services - Legal	5,138		5,138		5,138
Contractual Services - Water Testing	8,844		8,844		8,844
Contractual Services - Other	9,998		9,998		9,998
Transportation Expenses	38,755		38,755		38,755
Insurance - Vehicle	8,908		8,908		8,908
Insurance - Gen. Liab.	16,066		16,066		16,066
Insurance - Workers Comp.	3,130		3,130		3,130
Insurance - Other	11,380		11,380		11,380
Advertising	290		290		290
Bad Debt	4,462		4,462		4,462
Miscellaneous Expenses	59,413		59,413		59,413
Total Operation and Maint. Expenses	2,294,326	(453,103)	1,841,223	6,320	1,847,543
Depreciation Expense	362,609	500			
		(5,789)	357,320		357,320
Taxes Other Than Income	47,844	(4,924)	42,920	499	43,419
Total Operating Expenses	2,704,779	(463,316)	2,241,463	6,819	2,248,282
Net Utility Operating Income	\$ 92,911	\$ 498,832	\$ 591,743	\$ (6,819)	\$ 584,924

Revenue Decrease

In its application, Green-Taylor District calculated a required decrease to revenues from water sales of \$3,912.⁶⁷ Green-Taylor District claimed that its revenue requirement calculation using the Debt Service Coverage (DSC) method indicated that a water service rate increase was not necessary.⁶⁸ After adjusting the Commission Staff's

⁶⁷ ARF Application, 4_SAO_with_Attachments.pdf, Revenue Requirements, at unnumbered page 1.

⁶⁸ ARF Application, 2_Reason_for_Application.pdf, at unnumbered page 1.

recommendations, the Commission has recalculated the required decrease in Green-Taylor District's revenue from water sales to a decrease of \$136,276 as calculated in the table below.

	Green-Taylor District	Commission Staff's Report	Commission's Adjustments	Commission Rev. Requirement
Pro Forma Operating Expenses	\$ 2,426,287	\$ 2,241,463	\$ 6,819	\$ 2,248,282
Plus: Average Annual Debt Service	415,108	415,108		415,108
Debt Service Coverage Requirement	83,022	83,022		83,022
Overall Revenue Requirement	2,924,417	2,739,593	6,819	2,746,412
Less: Other Operating Revenue	(140,192)	(94,553)		(94,553)
Income - Utility Plant Leases	(18,472)	(18,472)		(18,472)
Interest Income	(25,659)	(25,659)		(25,659)
Nonutility Income	(5,351)	(5,351)		(5,351)
Revenue Required from Water Sales	2,734,743	2,595,558	6,819	2,602,377
Less: Normalized Revenues from Water Sales	(2,738,654)	(2,738,653)		(2,738,653)
Required Revenue Increase	\$ (3,911)	\$ (143,095)	\$ 6,819	\$ (136,276)
Percentage Increase	-0.14%	-5.23%		-4.98%

In its March 8, 2023 comments in response to Commission Staff's Report, Green-Taylor District gave the following reasons as to why the Commission should not require it to decrease its water service rates: (1) its current labor requirements; (2) a re-analysis of its CERS pension liability; (3) operational cost increases due to the effects of inflation.⁶⁹

The issues raised by Green-Taylor District could have a significant impact on Green-Taylor District's revenue requirement. However, with the limited information provided by Green-Taylor District, the Commission is unable to quantify certain adjustments. For example, Green-Taylor District did not provide adequate documentation to support its need for the two part-time crew leader positions or to document the projected hours those employees will work. Green-Taylor District also failed to provide a projected hire date for its proposed new operator in training employee. Therefore, adjustments for the two part-time crew leaders and the new operator in training would not meet the ratemaking criteria of being known and measurable. The Commission is

⁶⁹ Bad debt expense increased from \$10,557 in 2020 to \$39,736 in 2021. A 30% increase in commercial insurance package premiums. An 87% increase in chemical costs. The increased cost of electricity and the price of gasoline.

concerned that Green-Taylor District has not adequately planned for appropriate staffing levels, which is a critical component of maintaining safe and reliable water service.

Green-Taylor District was provided an opportunity to quantify and substantiate any operating expense increases in its written responses subsequent to the IC. Green-Taylor District failed to provide thorough information meeting the standards for known and measurable adjustments. Furthermore, the Commission's past precedent has been to find that inflationary adjustments using the Consumer Price Indexes fail to meet the ratemaking criteria of being known and measurable.⁷⁰

Although the Commission is unable to quantify the cost increases noted by Green-Taylor District, it does acknowledge that utilities have experienced operational cost increases since calendar year 2021 due to the Covid pandemic, recent supply chain issues, and the current rate of inflation. Therefore, the Commission finds that it would be unreasonable to require Green-Taylor District to reduce its water rates under the current economic environment.

However, it is important for Green-Taylor District to establish a policy to perform an annual review of its rate sufficiency to verify that an increase in rates is not required. Green-Taylor District should submit a rate case/rate study by July 31, 2026, using the Annual Report for calendar year 2025 as the test year unless the annual rate sufficiency analysis indicates a rate case should be filed sooner. The Commission encourages

⁷⁰ See Case No. 2006-00067, *Proposed Adjustment of the Wholesale Water Service Rate of the City of Lawrenceburg, Kentucky*, (Ky. PSC Nov. 21, 2006) at 3-4; Case No. 2001-0021 1, *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 Therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (KY. PSC Mar. 1, 2002) at 8; and Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009) at 9-13.

Green-Taylor District to particularly review staffing levels, to include any anticipated staffing changes within the annual rate sufficiency analysis and to provide in its next rate case application documentation to show the need for each employee position and a detailed list of the duties being performed by each employee. Green-Taylor District will file its initial rate sufficiency analysis that will be completed in 2023 based on calendar year 2022, in the post rate case file to ensure the Commission's directive was implemented and to allow Commission Staff to review Green-Taylor District's analysis.

RATE DESIGN

Green-Taylor District proposed to not increase all of its monthly retail water service rates and the wholesale water service rates. Green-Taylor District has not performed a cost of service study (COSS). Green-Taylor District stated that it did not complete a COSS because there have not been any material changes in customer usage patterns to warrant a COSS.

In the Commission Staff's Report, Commission Staff calculated a decrease to the revenue requirement of 5.21 percent, further Commission Staff provided rates that decreased the current rates by this same percentage.

The Commission has reviewed the request of Green-Taylor District and the Commission Staff's recommended rates in the Commission Staff's Report. The Commission finds that, based on the need for additional employee expense, cost increases due to inflation, and the need for the utility to have sufficient funds to appropriately invest in its system, provide adequate service and further increases in the number of employees, the Commission accepts the request by Green-Taylor District and will maintain the current rates charged by Green-Taylor District.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff Report and discussed above are supported by the evidence of record and are reasonable. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Therefore, applying the DSC method to Green-Taylor District's pro forma operations results in an Overall Revenue Requirement of \$2,746,412 and, a revenue decrease of \$136,276. The Commission agrees with Green-Taylor District and finds that a rate decrease is not warranted at this time. The Commission finds that the Commission Staff's recommended Nonrecurring Charges in the Commission Staff's Report and those charges stated in the Appendix should be approved. The Commission further finds that Green-Taylor District establish a policy to perform an annual review of its rate sufficiency and to submit the initial rate sufficiency analysis using its 2022 Annual Report to be completed in 2023 with this case number as a post correspondence file to ensure the Commission's directive was implemented and to allow Commission Staff to review Green-Taylor District's analysis. Unless Green-Taylor District's annual rate sufficiency review(s) indicates a need for a rate case sooner, the Commission finds that Green-Taylor District should submit a rate case/rate study by July 31, 2026, using the Annual Report for calendar year 2025 as the test year.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report, except as modified in this Order, are adopted and incorporated by reference into this Order as if fully set out in this Order.

2. Green-Taylor District's request to not adjust the retail water service rates and the wholesale water service rates is approved.

3. The nonrecurring charges proposed in the cost justification sheets filed in this case and that are stated in the Appendix to this Order are approved for service rendered on and after the date of this Order.

4. Within 20 days of the date of service of this Order, Green-Taylor 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. Green-Taylor District shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

6. Green-Taylor District shall be required to establish a policy to perform an annual review of its rate sufficiency.

7. Green-Taylor District shall file its initial rate sufficiency analysis to be completed in 2023 based on calendar year 2022, with this case number, as a post correspondence.

8. Green-Taylor District shall be required to submit a rate case/rate study by July 31, 2026, using the Annual Report for calendar year 2025 as the test year.

9. This case is closed and removed from the Commission's docket.

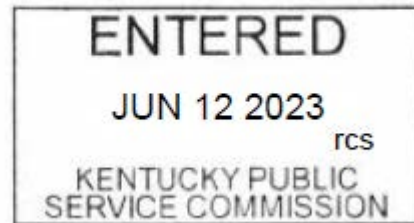
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PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00246 DATED JUN 12 2023

The following rates and charges are prescribed for the customers in the area served by Green-Taylor 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.

Nonrecurring Charges	
After Hours Charge	\$125.00
Debit Credit Card Fee	\$1.50
Meter Reread Charge	\$16.80
Meter Test Request Charge	\$62.00
Reconnection Charge	\$16.80
Return Check Charge	\$10.00
Service Charge	\$16.80

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