

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JUDY WATER)	CASE NO.
ASSOCIATION, INC. FOR A RATE ADJUSTMENT)	2022-00436
PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of January 31, 2023, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's January 31, 2023 Order, Judy Water Association, Inc. (Judy Water) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs Judy Water 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 26 2023

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 JUDY WATER ASSOCIATION, INC.

Judy Water Association, Inc. (Judy Water) is a water utility organized pursuant to KRS Chapter 273 that owns and operates a water distribution system through which it provides retail water service to approximately 2,031 residential customers and nine commercial customers that reside in Bath, Bourbon, Clark, Montgomery, and Nicholas counties, Kentucky.¹ On January 11, 2023,² Judy Water filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,³ Judy Water used the calendar year ended December 31, 2021, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2022-00208, which required Judy Water to file an application for an adjustment of its base rates by February

¹ *Annual Report of Judy Water Association to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

² Judy Water tendered its application on January 5, 2023. By letter dated January 9, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on January 11, 2023.

³ 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.

12, 2024.⁴ Judy Water’s last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2003-00249,⁵ Since that matter, Judy Water has only adjusted its rates pursuant to purchased water adjustments, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 31, 2023. Judy Water responded to two discovery requests from Commission Staff.⁶

WATER LOSS

The Commission notes that in its 2021 Annual Report, Judy Water reported a water loss of 17.5225 percent.⁷ Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2021 total annual cost of water loss to Judy Water is \$100,167, while the annual cost of water loss in excess of 15 percent is \$14,420.

Total Cost of Water Loss			
	Purchased Water	Treatment Plant Purchased Power	Total
Pro Forma Expenses	\$ 568,098	\$ 3,554	\$ 571,652
Multiply by: Total Water loss	17.5225%	17.5225%	17.5225%
Water Loss	\$ 99,545	\$ 623	\$ 100,168

⁴ Case No. 2022-00208, *Electronic Purchased Water Adjustment Filing of Judy Water Association, Inc.* (Ky. PSC Aug. 12, 2022) at 6, Ordering Paragraph 5.

⁵ Case No. 2003-00249, *Application for an Adjustment of Rates of Judy Water Association, Inc.* (Ky. PSC Sept. 9, 2003).

⁶ Judy Water’s Response to Commission Staff’s First Request for Information (Staff’s First Request) (filed Mar. 2, 2023). Judy Water’s Response to Commission Staff’s Second Request for Information (Staff’s Second Request) (filed Mar. 24, 2023).

⁷ 2021 Annual Report at 57.

Cost of Water Loss in Excess of 15 Percent

	Purchased Water	Treatment Plant Purchased Power	Total
Pro Forma Expenses	\$ 568,098	\$ 3,554	\$ 571,652
Multiply by: Water loss in Excess of 15 Percent	<u>2.5225%</u>	<u>2.5225%</u>	<u>2.5225%</u>
Water Loss	<u>\$ 14,330</u>	<u>\$ 90</u>	<u>\$ 14,420</u>

DISCUSSION

Using its pro forma test-year operations, Judy Water determined that a revenue increase of \$201,253, or 16.53 percent over test-year normalized revenues of \$1,217,743, was warranted⁸ as shown in the table below. The rates requested by Judy Water would increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$6.76 from \$40.93 to \$47.69, or approximately 16.5 percent.⁹

	<u>Judy Water Association</u>
Pro Forma Operating Expenses	\$ 1,364,783
Divided by: Operating Ratio	<u>88%</u>
Total Revenue Requirement	1,550,889
Less: Other Operating Revenue	(131,893)
Interest Income	<u>-</u>
Revenue from Sales with Present Rates	1,418,996
Revenue from Sales with Present Rates	<u>(1,217,743)</u>
Required Revenue Increase	<u>\$ 201,253</u>
Percentage Increase	<u>16.53 %</u>

⁸ Application, Attachment 4, Revenue Requirements, Operating Ratio Method.

⁹ Application, Attachment 1, 01_Customer_Notice.pdf, Customer Notice.

To determine the reasonableness of the rates requested by Judy Water, Commission Staff performed a limited review of Judy Water’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 measurable¹⁰ changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff’s findings are summarized in this report. William Foley reviewed the calculation of Judy Water’s Overall Revenue Requirement and Elizabeth Stefanski reviewed Judy Water’s reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. The Operating Ratio methodology¹¹ is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Commission Staff is of the opinion that an operating ratio of 88 percent will allow Judy Water sufficient revenues to cover its

¹⁰ Commission regulation 807 KAR 5:076, Section 9 sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes.” See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

¹¹ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

reasonable operating expenses and provide for reasonable equity growth. Therefore, Commission Staff finds the Operating Ratio method is more appropriate, as at the time of Commission Staff's review, Judy Water only had two outstanding United States Department of Agriculture, Rural Development (RD) Loans.¹² By applying the Operating Ratio (OR) method, as generally accepted by the Commission, Commission Staff determined that Judy Water's required revenue from water sales is \$1,465,094 to meet the Overall Revenue Requirement of \$1,553,363 and that a \$247,351 revenue increase, or 20.31 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon its application, Judy Water proposed to increase all its monthly retail water service rates evenly across the board by approximately 16.50 percent. Judy Water did not perform a cost-of-service study (COSS). Judy Water stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS.¹³

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff

¹² Case No. 2000-00161, *The Application of the Judy Water Association of Montgomery County, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions KRS 278.023* (Ky. PSC, Apr 28, 2000); Case No. 2004-00039, *The Application of Judy Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023* (Ky. PSC, Mar. 24, 2004).

¹³ Judy Water's Response to Staff's First Request, (filed Mar. 2, 2023), Item 14.

followed the method proposed by Judy Water and allocated the \$247,351 revenue increase across the board to Judy Water's monthly retail 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 \$1,465,094 Revenue Required from Water Sales, an approximate 20.31 percent increase. These rates will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$31.79 to \$38.14, an increase of \$6.35, or approximately 19.97 percent.¹⁴

3. Nonrecurring Charges. Following the Commission's recent decisions,¹⁵ Commission Staff has reviewed Judy Water'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. Judy Water provided updated cost justification information for the Nonrecurring Charges.¹⁶ Commission Staff reviewed the cost justification information provided by Judy Water and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those charges that occur during normal business hours. Further, in addition to removing the labor costs,

¹⁴ $\$38.14$ (Average Bill New Water Rates) - $\$31.79$ (Average Bill Current Water Rates) = $\$6.35$ (Total Difference in Customer Bill) \div $\$31.79$ (Average Bill Current Water Rates) = 19.97%.

¹⁵ 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); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

¹⁶ Judy Water's Response to Staff's First Request, (filed Mar. 2, 2023), Item 6, 6_Cost_Justification.pdf.

Commission Staff increased the Meter Test Charge as the Cost Justification sheet submitted by Judy Water indicated that the Materials costs were \$35.¹⁷ Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Late Payment Charge	10%	10%
Meter Relocation Charge	Actual	Actual
Meter Test Charge	\$20.00	\$35.00
Returned Check Charge	\$25.00	\$16.00

4. Commissioner Conflict. During the discovery process, Commission Staff learned that Judy Water’s Operations Director, Billy Ray Fawns is also a member of the water association’s board of commissioners.¹⁸ Mr. Fawns receives a salary as an employee of the water association, as well as his compensation for being a board member. This presents a potential conflict of interest under KRS 273.219(1)(b). Commission Staff recommends that Mr. Fawns act as either an employee of the water association or as a water association commissioner, but that he not continued to act in both capacities to avoid a conflict of interest. This issue may be further addressed by the Commission in the final Order in this proceeding.

PRO FORMA OPERATING STATEMENT

Judy Water’s Pro Forma Operating Statement for the test year ended December 31, 2021, as determined by Staff, appears in the table below.

¹⁷ Judy Water’s Response to Staff’s First Request, (filed Mar. 2, 2023), Item 6, 6_Cost_Justification.pdf.

¹⁸ Judy Water’s Response to Staff’s First Request (filed Mar. 2, 2023), Items 1f & 1h, 1_h_2021_Commissioners.pdf.

<u>Operating Revenues</u>	<u>Test Year</u>	<u>Adjustment</u>	<u>(Ref.)</u>	<u>Pro Forma</u>
Sales of Water				
Metered Water Sales	\$ 1,334,276	\$ 4,489 (109,480) (11,542)	(A) (B) (C)	\$ 1,217,743
Other Water Revenues				
Forfeited Discounts	413	11,542	(C)	11,955
Other Water Revenues	22,000	109,480	(B)	131,480
Total Operating Revenues	1,356,689	4,489		1,361,178
<u>Operating Expenses</u>				
Operating and Maintenance Expenses				
Salaries and Wages- Employees	182,987	37,173 87,050 (9,915)	(D) (E) (F)	297,295
Salaries and Wages- Officers	87,050	(87,050) 24,723	(E) (G)	24,723
Employee Pensions and Benefits	34,582	6,348	(H)	40,930
Insurance- Health, Gen. Liab & Worker Comp.	71,584	(9,954)	(I)	61,630
Purchased Water	568,098	14,330 9,619	(L) (J)	592,047
Purchased Power		15,095 90	(K) (L)	15,185
Materials and Supplies	43,776	(23,135)	(F)	20,641
Contractual Services	14,315			14,315
Miscellaneous Expenses	141,573	(22,200) (15,095)	(G) (K)	104,278
Total Operation and Maintenance Expenses	1,143,965	27,079		1,171,044
Depreciation Expenses	262,481	(94,162) 2,203	(M) (N)	170,522
Taxes other than Income	20,957	4,436	(O)	25,393
Total Operating Expenses	1,427,403	(60,444)		1,366,959
Utility Operating Income	(70,714)	64,933		(5,781)
<u>Other Revenues and Deductions</u>				
Gains (Losses) from Disposition of Utility Property	6,000	(6,000)	(P)	-
Interest and Dividend Income	3,005			3,005
Interest Expense	(68,130)			(68,130)
Total Other Revenues and Deductions	(59,125)	(6,000)		(65,125)
Net Income Before Contributions	\$ (129,839)	\$ 58,933		\$ (70,906)

(A) Billing Analysis. Judy Water proposed a decrease of \$17,363 to Metered Water Sales for leak adjustments and provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application, with total metered

water sales revenue reported as \$1,217,743.¹⁹ Judy Water calculated the adjustment by creating a billing analysis for 2021,²⁰ and subtracting leak adjustments of \$17,363²¹ for a Net Water Sales total of \$1,217,743.²² As explained below, the test year revenue from rates included forfeited discount revenue of \$11,542,²³ and water line extension surcharge revenue of \$109,480,²⁴ which Commission Staff subtracted from the test year revenue total. The net result is an increase in test year water sales revenue of \$4,489 as shown in the table below to reflect the revenue generated in the billing analysis.

	<u>Meter Size</u>	<u>Bills</u>	<u>Gallons Sold</u>	<u>Revenue</u>
All Meters		24,381	130,155,870	\$1,235,106
Less: Billing Adjustments				<u>(17,363)</u>
Normalized Revenue from Rates				<u>\$1,217,743</u>
Reported Test Year Revenue				\$1,334,276
Less: Waterline Extension Surcharge Revenue				(109,480)
Less: Late Payment Revenue				<u>(11,542)</u>
Total of Test Year less Misc. Revenue				<u>\$1,213,254</u>
Metered Water Sales Adjustment				<u><u>\$4,489</u></u>

¹⁹ Application, Attachment 5, Current Billing Analysis.

²⁰ Application, Attachment 5.

²¹ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Item 15_b_Billing_Adjustment_2021_(1).pdf.

²² Application, Attachment 5.

²³ Judy Water's Response to Staff's First Request (filed Mar 2, 2023), Item 3, 3_2021_Penalty_Charges.pdf.

²⁴ Judy Water's Response to Staff's Second Request (filed Mar. 24, 2023), Item 5d.

(B) Surcharge Revenues. Judy Water proposed to reclassify surcharge revenues of \$109,480 that were incorrectly included in metered sales.²⁵ Judy Water provided additional information about the surcharge revenues, stating that a monthly surcharge of \$16.77²⁶ is added to the bills of customers being served on the Bourbon County Waterline Extension. The test year total of \$109,480, charged specifically to recover the costs associated with the water line extension construction,²⁷ should properly be classified as Other Water Revenue. Commission Staff agrees with this adjustment.

(C) Forfeited Discounts. Judy Water reported Forfeited Discount revenue as Total Metered Water Sales in the test year of 2021. Judy Water provided detailed information about the late fee revenue and occurrences for the test year. Judy Water collected \$11,542 of Forfeited Discount revenue in the test year.²⁸ Commission Staff reclassified the 2021 Forfeited Discount revenue to Other Water Revenue, which decreased Metered Water Sales by \$11,542, and increased Other Water Revenue-Forfeited Discounts by \$11,542.

(D) Salaries and Wages – Employees. In its application, Judy Water proposed an adjustment to increase test year Salaries and Wages - Employees by \$43,265 to account for increases in Wage rates, employee turnover, and an additional employee.²⁹

²⁵ Application, Schedule of Adjusted Operations, Adjustment B.

²⁶ Case No. 2000-00161, *The Application of Judy Water Association of Montgomery County, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to the Provisions of KRS 278.023* (Ky. PSC June 8, 2000).

²⁷ Judy Water's Response to Staff's Second Request (filed Mar. 24, 2023), Item 5d.

²⁸ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Item 3, 3_2021_Penalty_Charges.pdf.

²⁹ Application, Attachment 4, Adjustment C.

Judy Water provided its test-year, and current employee list,³⁰ hours worked,³¹ and employee wages.³² Subsequent to the test year one employee left employment, a new employee was hired, and two employees moved from part time to full time. Judy Water pays employees an annual bonus intended to incentivize employee retention and encourage diligence.³³ Commission Staff concluded that the incentive is appropriate to include for ratemaking purposes because the bonuses are dependent on the proper operations of the association and are performance-based reflecting individual efforts and not guaranteed. In addition, as discussed in Adjustment (E) below, the Operations Director's Salary of \$87,050 was originally not included in Judy Water's test year Salaries and Wages – Employee but was reclassified to be included in the calculation. Commission Staff Normalized the Test year Salaries and Wages – Employees, including the Operations Director. Therefore, based on the Normalized test year, Commission Staff increased Salaries and Wages – Employees by \$37,173.

³⁰ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Item 1e.

³¹ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Item 1e.

³² Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Item 1f.

³³ Judy Water's Response to Staff's Second Request (filed Mar. 24, 2023), Item 2.

Test Year hours with Current Wages						
Employee Position	Total Hours	Test Year Normal Hours	Current Wages Rates	Pro Forma Normal Wages	Test Year Bonus Wages	Total
						Pro Forma Wages
Operations Director	2,080	2,080	Salary	\$ 66,950	\$ 15,327	\$ 82,277
Water Operator	2,080	2,080	Salary	43,260	8,832	52,092
Water Operator	2,080	2,080	Salary	39,000	7,149	46,149
Water Operator	1,820	1,820	\$ 18.00	32,760	-	32,760
Part Time Laborer	416	416	14.42	6,000	5,235	11,235
Office Administrator	2,080	2,080	Salary	39,000	1,260	40,260
Customer Service Representative	2,080	2,080	Salary	28,840	7,198	36,038
Customer Service Representative (Part Time)	160	160	20.00	3,200	3,200	6,400
				\$259,010	\$ 45,000	
				Total Pro Forma Salaries and Wages - Employee		307,210
				Less: Test Year Salaries and Wages - Employee		(182,987)
				Less: Reclassification from Officers Salaries (Adjustment F)		(87,050)
				Pro Forma Salaries and Wages - Employees Adjustment		<u>\$ 37,173</u>

(E) Reclassify Salaries and Wages – Officers. During the test year, Judy Water reported the Salaries and Wages of the Operations Director as part of Salaries and Wages – Officers.³⁴ Therefore, Commission Staff reduced Salaries and Wages – Officers and increased Salaries and Wages – Employees by \$87,050 to account for the reclassification.

(F) Expenses Related to Meter Installations. In its application, Judy Water proposed an adjustment to decrease test year Materials and Supplies by \$23,135 and Salaries and Wages – Employees by \$9,915 to account for tapping fees that were included as part of these expenses.³⁵ During 2021, Judy Water installed 28 new water connections, 26 of which were 3/4" meters and two were 1" meters.³⁶ The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.³⁷

³⁴ 2021 Annual Report at 50.

³⁵ Application, Attachment 4, Adjustment D.

³⁶ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Item 12.

³⁷ USoA, Accounting Instruction 19 and 33.

Commission Staff agrees with Judy Water’s proposed adjustment, and decreased Materials and Supplies expense by \$23,135 and Salaries and Wages – Employees by \$9,915 as shown below. Additionally, Commission Staff capitalized the costs and made a corresponding adjustment to test-year depreciation as shown in adjustment (N).

Test-Year Tap Fees Collected		\$33,050
Multiplied by Salaries and Wages Percentage- 30%		9,915
Multiplied by Materials and Supplies Percentage-70%		23,135

(G) Salaries and Wages – Officers. In its application, Judy Water proposed an adjustment to increase Salaries and Wages – Officers and decrease Miscellaneous Expenses by \$22,200.³⁸ The adjustment is to reflect the reclassification of commissioner’s salaries that were inadvertently included in Miscellaneous Expenses in Judy Water’s 2021 Annual Report.³⁹ Commission Staff reviewed Judy Water’s 2021 Annual Report and Judy Water’s Adjusted Trial Balance and confirmed Miscellaneous Expense included Director’s fees of \$22,200.⁴⁰

Judy Water’s Board of Directors consists of four members who are each paid \$300 per month; in addition they are paid an annual bonus between \$2,500 and \$2,823.⁴¹ The bonus is paid as an incentive and to attract knowledgeable personnel, as well as to encourage diligence.⁴² Pursuant to KRS 273A.115 Section (2)(a), a water association

³⁸ Application, Attachment 4, Adjustment D.

³⁹ Application, Attachment 4, References, Adjustment D.

⁴⁰ Judy Water’s Response to Staff’s First Request (filed Mar. 2, 2023), Item 1a, 1a_2021_Adjusted_Trial_Balance.pdf, Account 74200 – Director’s Fees.

⁴¹ Judy Water’s Response to Staff’s First Request (filed Mar. 2, 2023), Item 1h.

⁴² Judy Water’s Response to Staff’s Second Request (filed Mar. 24, 2023), Item 2.

may pay reasonable compensation to its board members for services rendered.⁴³ Commission Staff concludes that Judy Water should be permitted to recover, for rate making purposes, the amount determined reasonable by the association and its members, who are the rate payers. Commission Staff agrees with Judy Water’s proposal to record expenses in the correct expense account. Therefore, as shown below, Commission Staff decreased Miscellaneous Expense by \$22,200 and increased Salaries and Wages – Officers to \$24,723.

<u>Commissioners</u>	<u>Pro Forma Salaries & Bonuses</u>
Carl Hargrove	\$ 6,100
Chris Cockrell	6,100
Greg Williamson	6,100
Billy Ray Fawns	<u>6,423</u>
 Total	 <u>\$ 24,723</u>

(H) Employee Pensions and Benefits - Pensions. In its application, Judy Water proposed an adjustment increasing Employee Pension and Benefits by \$824, to account for the increase in Pensions due to an increase in salaries subsequent to the test year.⁴⁴ Judy Water contributes 16 percent of the Employee’s Gross Salaries Expense for all full time employees, not including bonuses, into a simplified employee pension (SEP) individual retirement account (IRA) retirement plan for employees.

⁴³ Ky. Rev. Stat. 273A.115 Section (2)(a), An unincorporated nonprofit association may: Pay reasonable compensation or reimbursement reasonable expenses to a member or manager for services rendered.

⁴⁴ Application, Attachment 4, Adjustment F.

Utilizing the pro forma Salaries and Wages – Employees and Judy Water’s contribution rate of 16 percent⁴⁵ to the SEP IRA,⁴⁶ Commission Staff calculated a Pro Forma Retirement contribution of \$40,930. Therefore, Commission Staff made an adjustment increasing Employee Pensions and Benefits by \$6,348.

<u>Employee Pensions and Benefits</u>	
Gross Pro Forma Eligible Salaries and Wages- Employees	\$ 255,810
Multiplied by: Employer Retirement Contribution Rate	<u>16.00%</u>
Pro Forma- Employer Retirement Contribution	40,930
Less: Test Year Employee Retirement	<u>(34,582)</u>
Employee Pensions and Benefits Adjustment	<u>\$ 6,348</u>

(l) Insurance – Health, Gen. Liability & Workers Comp. In its application, Judy Water proposed two adjustments to Employee Pension and Benefits related to health insurance premiums for a net decrease of \$6,923. First, Judy Water proposed a decrease of \$724 to reflect a decrease in insurance premiums.⁴⁷ The second adjustment was a decrease of \$6,199 to reflect PSC policy of limiting expenses for ratemaking purposes associated with providing employees medical insurance to match the Bureau of Labor Statistics.⁴⁸ Judy Water currently pays 100 percent for full time Employee’s health insurance plan. The Commission continues to place greater emphasis on evaluating employees’ total compensation packages, including both salary and benefits programs,

⁴⁵ Judy Water Revised Supplemental Response to Staff’s Second Request (filed Apr. 3, 2023).

⁴⁶ Telephone conversation with Sara Collier, Office Administrator of Judy Water (Apr. 10, 2023).

⁴⁷ Application, Attachment 4, Adjustment G.

⁴⁸ Application, Attachment 4, Adjustment H.

for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.⁴⁹

Consistent with precedent,⁵⁰ Commission Staff agrees with Judy Water's methodology but calculated a different amount. Commission Staff reduced Judy Water's single health insurance premiums by 22 percent,⁵¹ and family insurance premiums by 34 percent,⁵² as shown in the calculation below. Judy Water provided the most recent copy of its health and dental insurance invoices accounting for the decrease to insurance premiums proposed,⁵³ and the test year amount reported for insurance premiums.⁵⁴ Accordingly, utilizing the most recent invoice amounts, Commission Staff recalculated the proposed adjustment and decreased Insurance – Health, Gen. Liability & Worker Comp. by a net of \$9,954.

⁴⁹ 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).

⁵⁰ Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates*, (Ky. PSC June 20, 2019) at 8–12.

⁵¹ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁵² Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁵³ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Item 5, 5_Health_Insurance_Invoice.pdf.

⁵⁴ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Item 1i, Judy_WA_Rate_Study.xlsx, Medical Tab, Cell B40 \$30,244 + Cell C40 \$2,390 = \$32,634.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health and Vision Insurance	1	\$ 516	22%	\$ (114)	\$ 402
Family Health and Vision Insurance	3	\$ 1,944	34%	(661)	\$ 1,283
Life Insurance	5	205	0%	-	205
Total Pro Forma Monthly Premium Times: 12 Months	5	2,665		(775)	1,890
					<u>12</u>
Total Annual Pro Forma Premium					22,680
Less: Test Year Health/Life Insurance					<u>(32,634)</u>
Final Pro Forma Employee Pensions and Benefits adjustment					<u>\$ (9,954)</u>

(J) Purchased Water Expense. In its test year, Judy Water reported a purchased water expense of \$568,098.⁵⁵ Subsequent to the test year, Judy Water filed a purchase water adjustment application in Case No. 2022-00208, in which the Commission approved an increase in retail water rates.⁵⁶ Judy Water provided the total number of gallons and the purchased rate for water purchased during the test year.⁵⁷ In order to normalize the purchased water cost, Commission Staff calculated a revised pro forma purchased water expense using the test year gallons purchased and the new rates. This results in a purchased water expense of \$577,717. Therefore, Commission Staff increased purchased water expense by \$9,619 as shown below.

⁵⁵ Application, Attachment 4, Schedule of Adjusted Operations.

⁵⁶ Case No. 2022-00208, *Electronic Purchased Water Adjustment Filing of Judy Water Association, Inc.* (Ky. PSC Aug 12, 2022).

⁵⁷ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Items 8 and 9, 8_Purchased_Water.xlsx.

Period	Mt. Sterling Water and Sewer		Kentucky American Water Company					Kentucky River Water Authority	Total
	Gallons Purchased	Cost per Gallon	Gallons Purchased	Cost per Gallon		Volumetric Charge	QIP Surcharge 2.04%		
				<7,000 per day	> 7,000 per day				
Jan-2021	9,851,590	\$0.00340	2,354,000	\$0.00452	\$0.00462	\$ 10,640	\$ 217	\$ 683	\$45,035
Feb-2021	9,600,360	0.00340	2,714,000	0.00452	0.00462	12,267	250	787	45,946
Mar-2021	9,519,820	0.00340	2,068,000	0.00452	0.00462	9,347	191	600	42,505
Apr-2021	10,790,160	0.00340	2,153,000	0.00452	0.00462	9,732	199	624	47,241
May-2021	9,579,280	0.00340	3,040,000	0.00452	0.00462	13,747	280	882	47,478
Jun-2021	10,431,530	0.00340	2,503,000	0.00452	0.00462	11,314	231	726	47,737
Jul-2021	11,587,630	0.00340	2,760,000	0.00452	0.00462	12,475	254	800	52,928
Aug-2021	11,229,450	0.00340	4,052,000	0.00452	0.00462	18,410	376	1,175	58,141
Sep-2021	11,715,850	0.00340	2,985,700	0.00452	0.00462	13,505	276	866	54,480
Oct-2021	11,142,844	0.00340	3,459,300	0.00452	0.00462	15,669	320	1,003	54,877
Nov-2021	9,831,405	0.00340	832,900	0.00452	0.00462	3,765	77	242	37,510
Dec-2021	10,284,650	0.00340	1,809,500	0.00452	0.00462	8,179	167	525	43,838
Totals	125,564,569		30,731,400			\$ 139,049	\$ 2,837	\$ 8,912	
Total Purchased Water Expense								577,717	
Less: Test Year Purchased Water								(568,098)	
Pro Forma Purchased Water Adjustment								\$ 9,619	

(K) Reclassify Purchased Power Expense. In its application, Judy Water proposed an adjustment to increase Purchased Power Expense and decrease Miscellaneous Expense by \$3,554.⁵⁸ The adjustment was proposed because purchased power expenses were incorrectly recorded as miscellaneous expenses. Judy Water provided additional information about the test year Purchased Power Expense included in Miscellaneous Expense.⁵⁹ Commission Staff agrees with Judy Water's proposal to record expenses in the correct expense account. However, when Commission Staff reviewed the transactions included in Miscellaneous Expenses, a purchased power amount of \$15,095 was determined. Therefore, Commission Staff decreased Miscellaneous Expense and increased Purchased Power Expense by \$15,095.

(L) Expenses Attributable to Water Loss. During the test year, Judy Water reported water loss of 17.5225 percent.⁶⁰ As mentioned earlier in the report, Commission

⁵⁸ Application, Attachment 4, Adjustment G.

⁵⁹ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Item 1a, 1a_2021_General_Ledger.xlsx, at 115, Account 73400 – Utilities & Telephone.

⁶⁰ 2021 Annual Report at 57.

regulations prohibit the recovery of expenses for water loss in excess of 15 percent. When Adjustments (K) and (L) are included in the calculation for expenses attributable to water loss, it results in a net decrease to Purchased Water Expense of \$14,330 and Purchased Power Expense of \$90 as shown in the table below.

	Purchased Water	Treatment Plant Purchased Power	Total
Pro Forma Expenses	\$ 568,098	\$ 3,554	\$ 571,652
Multiply by: Water loss in Excess of 15 Percent	<u>2.5225%</u>	<u>2.5225%</u>	<u>2.5225%</u>
Water Loss	<u>\$ 14,330</u>	<u>\$ 90</u>	<u>\$ 14,420</u>

(M) Depreciation Expense. In its application, Judy Water proposed a decrease in Depreciation Expense by \$85,033 to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).⁶¹ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979. 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 agrees with Judy Water’s methodology to adjust depreciation expense; however, Commission Staff calculated a depreciation expense of \$168,314. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff decreased Judy Water’s Depreciation Expense to \$168,314, a difference of \$94,162, as shown below.

⁶¹ Application, Attachment 4, Adjustment L.

	<u>Service Life Ranges</u>	<u>Test Year Depreciation</u>	<u>Depreciation Adjustment</u>	<u>Pro Forma Depreciation</u>
<u>General Plant</u>				
Structures & Improvement	35 - 40	5,120	(138)	4,982
Communication & Computer Eq.	10	4,908	(2,160)	2,748
Tools, Shop, & Garage Eq.	15 - 20	11,220	(6,284)	4,936
<u>Pumping Plant</u>				
Telemetry	10	-	1,921	1,921
<u>Transmission & Distribution Plant</u>				
Hydrants	40 - 60	2,802	(560)	2,241
Transmission & Distribution Mains	50 - 75	180,814	(69,760)	111,054
Meter Installation	40 - 50	8,835	(6,808)	2,027
Meter Change-outs	15	20,434	(5,641)	14,793
Reservoirs & Tanks	30 - 60	16,157	(1,795)	14,362
Tank Painting & Repairs	30 - 60	3,928	(3,055)	873
<u>Transportation Equipment</u>				
Entire Group	7	8,259	118	8,377
Total		<u>\$ 262,476</u>	<u>\$ (94,162)</u>	<u>\$ 168,314</u>

(N) Capitalization of Test-Year Water Connections. As explained in adjustment (F) above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. Since Judy Water uses radio read meters, Commission Staff utilized a 15-year service life. Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$2,203 as shown below

Test-Year Water Connections Expense	\$30,050
Divided by: Useful Service Life of 15 Years	<u>15</u>
Pro Forma Depreciation Adjustment	<u>\$2,203</u>

(O) Taxes other than Income – Payroll. In its application, Judy Water proposed an adjustment to increase Taxes other than Income by \$3,011 to account for increase in payroll taxes due to the proposed increase in Salaries and Wages Expense.⁶² However,

⁶² Application, Attachment 4, Adjustment M.

as explained in Adjustments (E) and (H) above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$307,209 and Officers of \$24,723. Therefore, Commission Staff calculated an increase to Taxes other than Income of \$4,436 as shown below.

	Staff Pro Forma
Pro Forma Salaries & Wages - Employees	\$ 307,210
Pro Forma Salaries & Wages -Officers	<u>24,723</u>
 Total Pro Forma Wages & Salaries	 331,933
Times: 7.65 Percent FICA Rate	<u>7.65%</u>
 Total Pro Forma Payroll Taxes	 25,393
Less: Test Year Payroll Taxes	<u>(20,957)</u>
 Taxes Other than Income Adjustment	 <u>\$ 4,436</u>

(P) Gains (Losses) from Disposition of Utility Property. During the test year, Judy Water reported \$6,000 in gains from the sale of 11 Integra TR Data Radios; as the units were beyond their service life, for \$6,000; which was not a usual occurrence.⁶³ Therefore, it is not a routine transaction in the normal course of business and should be removed from the test year. Commission Staff made an adjustment to decrease Gains on the Disposition of Property of \$6,000 to remove the effects of this extraordinary transaction.

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Operating Ratio methodology is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Therefore, Commission Staff finds the

⁶³ Judy Water’s Response to Staff’s Second Request (filed Mar. 24, 2023), Item 1a and 1b.

Operating Ratio method is more appropriate, as at the time of Commission Staff's review, Judy Water only had two outstanding United States Department of Agriculture, Rural Development (RD) Loans. Commission Staff is of the opinion that an operating ratio of 88 percent will allow Judy Water sufficient revenues to cover its reasonable operating expenses and provide for reasonable equity growth.

By applying the Operating Ratio method, Commission Staff found Judy Water's Revenue Requirement from Rates for Service to be \$1,465,094. A revenue increase of \$247,351, or 20.31 percent, is necessary to generate the Overall Revenue Requirement of \$1,553,363.

	Judy Water Association	Commission Staff
Pro Forma Operating Expenses	\$ 1,364,783	\$ 1,366,959
Divided by: Operating Ratio	88%	88%
Total Revenues Requirement	1,550,889	1,553,363
Plus: Average Interest Expense		58,171 (1)
Less: Other Operating Revenue	(131,893)	(143,435)
Interest Income	-	(3,005) (2)
Revenue Required From Sales of Water	1,418,996	\$ 1,465,094
Revenue from Sales with Present Rates	(1,217,743)	(1,217,743)
Required Revenue Increase	\$ 201,253	\$ 247,351
Percentage Increase	16.53%	20.31%

1. Average Annual Interest and Fees Payments. In its application, Judy Water did not request recovery of the average annual interest on its indebtedness.⁶⁴ At the time of Commission Staff's review, Judy Water had two outstanding United States Department of Agriculture, Rural Development (RD) loans. Since the statutory date for a final Order

⁶⁴ Judy Water's Response to Staff's First Request (filed Mar. 2, 2023), Judy_WA_Rate_Study.xlsx.

to be issued in this proceeding is November 11, 2023, the 2023 payments will be recovered through Judy Water’s existing rates. Therefore, Commission Staff included the average annual interest on a five-year average for the years 2024 through 2028. Commission Staff calculated an Average Interest Expense of \$58,171 as shown below.

Debt Service Schedule			
	Loan 91-05	Loan 91-07	
Year	Interest	Interest	Total
2024	\$ 41,267	\$ 21,655	\$62,922
2025	39,664	20,994	60,657
2026	37,980	20,305	58,284
2027	36,212	19,586	55,798
2028	34,355	18,838	53,193
	<u>\$ 189,477</u>	<u>\$ 101,377</u>	
Total			290,854
Divide by: 5 years			<u>5</u>
Average Interest Expense			<u><u>\$58,171</u></u>

2. Interest and Dividend Income. In its application, Judy Water reported \$0 Interest Income in the Revenue Requirement calculation.⁶⁵ The Trial Balance includes Interest income of \$3,005.⁶⁶ The OR method to calculate the Overall Revenue Requirement does not allow for the recovery of Interest and Dividend Income; Therefore, Commission Staff reduced the Overall Revenue Requirement by \$3,005.

⁶⁵ Application, Attachment 4, Revenue Requirements Table.

⁶⁶ Judy Water’s Response to Staff’s First Request (filed Mar. 2, 2023), Item 1a, 1a_2021_Adjusted_Trial_Balance.pdf.

Signatures

/s/ William M. Foley

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

/s/ Elizabeth Stefanski

Prepared by: Elizabeth Stefanski
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00436 DATED APR 26 2023

The following rates and charges are prescribed for the customers in the area served by Judy Water Association, Inc. 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

First	1,000	Gallons	\$16.22	Minimum Bill
Next	4,000	Gallons	0.01096	Per Gallon
Next	5,000	Gallons	0.00990	Per Gallon
Over	10,000	Gallons	0.00882	Per Gallon

Nonrecurring Charges

Late Payment Penalty	10%
Meter Relocation Charge	Actual
Meter Test Charge	35.00
Returned Check Charge	16.00
5/8 x 3/4 Inch Tap-On Charge	\$1,175.00
All Meters larger than 5/8 x 3/4	Actual Cost

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