


COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EDMONSON)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2023-00037
ADJUSTMENT 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 March 2, 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 March 2, 2023 Order, Edmonson County Water District (Edmonson District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Edmonson 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 JUN 05 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 EDMONSON COUNTY WATER DISTRICT

Edmonson County Water District (Edmonson District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a wastewater distribution system through which it provides retail wastewater service to approximately 56 residential customers¹ that reside in Butler, Edmonson, Grayson, Hart, and Warren counties, Kentucky.

On February 13, 2023, Edmonson District filed its application with the Commission requesting an adjustment to its wastewater rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,² Edmonson District 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. 2021-00463, which required Edmonson District to file an application for an adjustment of its wastewater base rates by

¹ *Annual Report of Edmonson District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 25.

² 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.

February 14, 2023.³ A review of the Commission's records indicate this is Edmonson District's first alternative rate adjustment since June 27, 2014.⁴ To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 2, 2023. Edmonson District responded to two discovery requests from Commission Staff.⁵

DISCUSSION

Using its pro forma test-year operations, Edmonson District determined that a base rate revenue increase of \$25,345, or 144.68 percent, is necessary to achieve the revenue requirement as shown in the table below.⁶ Edmonson District proposed a two stage phase-in for the proposed rates. The proposed Phase 1 rates would increase a typical residential customer's monthly wastewater bill from \$17.90 to \$33.36, an increase of \$15.46 or approximately 86.37 percent.⁷ The Phase 2 rates, which will be implemented one year after the effective date of the Phase 1 rates, will increase a typical residential customer's monthly wastewater bill from \$33.36 to \$43.80, an increase of \$10.44 or

³ Case No. 2021-00463, *Electronic Application of Edmonson County Water District to Issue Securities for the Purpose of Refinancing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Feb 3, 2022), at 10, ordering paragraph 7.

⁴ Case No. 2014-00175, *Application of Edmonson County Water District, Edmonson, Warren, Grayson and Hart Counties, Kentucky for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements to its Water System and Seeking Approval of the Issuance of Certain Securities* (Ky. PSC. June 27, 2014).

⁵ Edmonson District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Apr. 5, 2023); Edmonson District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed May. 3, 2023).

⁶ Application, Attachment 4, 04_SAO_andRev_Reqmt.pdf.

⁷ Application, Customer Notice, typical wastewater customer uses approximately 2,500 gallons per month.

approximately 31.29 percent.⁸ The cumulative increase from \$17.90 to \$43.80 is \$25.90 or approximately 144.69 percent.

	Edmonson District
Pro Forma Operating Expenses	\$ 37,022
Plus: Avg. Annual Principal and Interest Payments	5,242
Additional Working Capital	<u>1,048</u>
Total Revenues Requirement	43,313
Less: Other Operating Revenue	(449)
Interest and Dividend Income	<u>(1,277)</u>
Revenue Required From Sewer Sales	42,864
Less: Revenue from Sales at Present Rates	<u>(17,518)</u>
Required Revenue Increase	<u>\$ 25,345</u>
Percentage Increase	<u>144.68%</u>

To determine the reasonableness of the rates requested by Edmonson District, Commission Staff performed a limited financial review of Edmonson 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, Customer Notice, typical wastewater customer uses approximately 2,500 gallons per month.

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, *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); and 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 findings are summarized in this report. William Foley reviewed the calculation of Edmonson District's Overall Revenue Requirement, and Elizabeth Stefanski reviewed Edmonson District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Edmonson District's required revenue from wastewater rates is \$62,514 to meet the Overall Revenue Requirement of \$64,240 and that a \$44,996 revenue increase, or 256.86 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Wastewater Service Rates. Based upon the percentage increase in revenue requirement, Edmonson District proposed to increase its monthly wastewater service rates evenly across the board. Edmonson District has not performed a cost of service study (COSS).¹⁰ Edmonson District stated that it did not consider filing a COSS with the current rate application as there were no material changes in its system and that Edmonson District would consider preparing a new COSS if material changes in customer usage patterns were to occur.¹¹ 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

¹⁰ Edmonson District's Responses to Staff's First Request, Item 13a.

¹¹ Edmonson District's Responses to Staff's First Request, Item 13b and 13c.

is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by Edmonson District and allocated the \$44,996 revenue increase across the board to Edmonson District's monthly wastewater service rates.

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from wastewater sales to recover the \$62,514 Revenue Required from Wastewater Sales, an approximate 256.86 percent increase. The Phase 1 rates will increase a typical residential customer's monthly wastewater bill from \$17.90 to \$31.95, an increase of \$14.05 or approximately 78.46 percent.¹² The Phase 2 rates, which will be implemented one year after the effective date of the Phase 1 rates, will increase a typical residential customer's monthly wastewater bill from \$31.95 to \$63.89, an increase of \$31.94 or approximately 99.97 percent.¹³ The cumulative increase from \$17.90 to \$63.89 is \$45.99 or approximately 256.93 percent.

3. Nonrecurring Charges. Following the Commission's recent decisions,¹⁴ Commission Staff has reviewed Edmonson District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal

¹² Application, Customer Notice, typical wastewater customer uses approximately 2,500 gallons per month.

¹³ Application, Customer Notice, typical wastewater customer uses approximately 2,500 gallons per month.

¹⁴ 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).

business hours, and that the compensation is already recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges to avoid double recovery of the same expense. Edmonson District provided cost justification information for the Nonrecurring Charges in response to Commission Staff's Second Request.¹⁵ Commission Staff reviewed all cost justification information provided by Edmonson District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those charges that occur during normal business hours. During the test year, Edmonson District did not assess any Service Calls/Investigations, Meter Tests, or Returned Check fees.¹⁶ Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charges</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Sewer Reconnection Charge	\$ 35	\$ 3
Meter Test Fee	35	3

PRO FORMA OPERATING STATEMENT

Edmonson District's Pro Forma Operating Statement for the test year ended December 31, 2021, as determined by Commission Staff, appears in the table below.

¹⁵ Edmonson District's Response to Staff's Second Request (filed May 3, 2023), Items 8 and 9.

¹⁶ Edmonson District's Response to Staff's First Request (files Apr. 5, 2023), Items 9, 11, and 12.

	Test Year	Adjustment	(Ref.)	Pro Forma
<u>Operating Revenues</u>				
Total Sewer Sales	\$ 17,288	230	(A)	\$ 17,518
Other Sewer Revenues	449			449
Total Operating Revenues	<u>17,737</u>	<u>230</u>		<u>17,967</u>
<u>Operating Expenses</u>				
Operating Expenses				
Collection- Labor, Materials and Expenses	38	1,473	(B)	1,511
Pumping- Labor, Materials and Expenses	10,551	(10,551)	(C)	-
Power for Pumping and Treatment	1,299			1,299
Miscellaneous Supplies and Expenses	335			335
Treatment & Disposal	-	10,551	(C)	10,551
Customer Account Expenses				
Customer Records & Collection Exp- Labor	-	847	(D)	847
Misc. Customer Accounts Expense	201			201
Administrative and General Expenses				
Administrative and General Salaries	-	773	(E)	
		151	(F)	924
Office Supplies and Other Expenses	522	47	(G)	569
Employee Pensions and Benefits	-	340	(H)	
		250	(I)	590
Transportation Expense	-	286	(J)	286
Total Operation and Maintenance Expenses	12,946	4,166		17,112
Depreciation Expenses	63,281	(22,421)	(K)	
		-	(L)	40,860
Taxes other than Income	3	248	(M)	251
Total Operating Expenses	<u>76,230</u>	<u>(18,007)</u>		<u>58,223</u>
Utility Operating Income	(58,493)	18,237		(40,256)
Interest and Dividend Income	1,277			1,277
Net Income Before Contributions	<u>\$ (57,216)</u>	<u>\$ 18,237</u>		<u>\$ (38,979)</u>

(A) Billing Analysis. Edmonson District provided a billing analysis listing the gallons sold and sales revenue for the 12-month test year in its application. In the 2021 Annual Report, total metered sales revenue reported for the test year is \$17,288.¹⁷ Edmonson District provided a billing analysis to calculate a normalized revenue amount

¹⁷ 2021 Annual Report at 25, Total Metered Sales \$17,288.

based on the usage during the test year using the rates authorized in its current tariff to be \$17,518.¹⁸ Subsequently, Edmonson District increased test year sales revenue by \$230 to reflect the revenues from water sales generated by the billing analysis. Commission Staff agrees with the Billed Revenues amount of \$17,518 in Edmonson District's billing analysis and determined that Edmonson District's adjustment is appropriate,¹⁹ and test-year Revenue from Rates was increased by \$230.

<u>Customer Class</u>	<u>Bills</u>	<u>Gallons Sold</u>	<u>Revenue</u>
Residential Customers	439	1,163,500	\$ 8,761
Commercial Customers	227	839,600	8,757
	666	2,003,100	
	Billed Revenues		17,518
	Plus: Other Water Revenues		449
	Normalized Revenue from Rates		<u>17,967</u>

(B) Collection- Labor, Materials and Expenses. In its application, Edmonson District proposed an adjustment to increase Collection – Labor, Material and Expenses by \$1,133,²⁰ because most of the field labor for work in the sewer division was charged to the water division during the test year. Edmonson District proposed using the 2022 hours worked and current wage rates since there is no record of hours worked during the test year.²¹ Subsequent to the test year, Edmonson District changed its procedure, and field hours worked are now charged directly to the sewer division.²² Commission Staff

¹⁸ Edmonson District's Response to Staff's First Request (filed Apr. 5, 2023), Item 14, EC1_14.a-Billing_Analyses.xlsx.

¹⁹ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment A.

²⁰ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment B.

²¹ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment B.

²² Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment B.

agrees with using the 2022 hours worked for the pro forma calculation. Since Edmonson District did not properly charge employee hours to the sewer division, the test-year Collection – Labor, Material and Expenses is unreliable. Edmonson District provided the hours worked for the sewer division in 2022²³ and the current pay rates.²⁴ Commission Staff concluded that the 2022 employee count, hours worked, and the current wages more accurately represent Edmonson District’s current staffing and wage structure. Commission Staff calculated the Pro Forma Collection - Labor, Materials and Expenses of \$1,511 increasing it by \$1,473 as shown below.

Employee Position	Total Hours	Test Year Normal Hours	Current Wages Rates	2022 hours with Current Wages		Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages
				Sewer Allocated Percentage	Pro Forma Normal Wages				
Field Labor									
Equipment Operator	5	5	\$ 25.18	100%	\$ 125.90	-	\$ 37.77	\$ -	\$ 126
Equipment Operator	5	5	22.87	100%	114.35	-	34.31	-	114
Dist. Line Supervisor	1	1	27.11	100%	13.56	-	40.67	-	14
Equipment Operator	5	5	19.71	100%	98.55	-	29.57	-	99
Dist. Line Operator	44	44	18.12	100%	797.28	-	27.18	-	797
Dist. Line Operator	1	1	21.02	100%	21.02	-	31.53	-	21
Dist. Line Operator	14	14	17.02	100%	238.28	-	25.53	-	238
Dist. Line Operator	6	6	17.02	100%	102.12	-	25.53	-	102
					\$ 1,511.06				
					Pro Forma Collection- Labor, Materials and Expenses				1,511
					Less: Collection- Labor, Materials and Expenses				<u>(38)</u>
					Pro Forma Adjustment				<u>\$ 1,473</u>

(C) Pumping – Labor, Materials, and Expenses – Reclassify Disposal Payments. In its application, Edmonson District proposed an adjustment to decrease Pumping – Labor, Materials and Expenses and increase Treatment and Disposal by

²³ Edmonson District’s Response to Staff’s First Request, Item 1e, EC1_1.e-2021_2022_All_Hours_Worked.xlsx.

²⁴ Edmonson District’s Response to Staff’s First Request, Item 1e, EC1_1.e-2021_2022_Swr_Hrs_Wages.xlsx.

\$9,727.²⁵ The adjustment was proposed to account for payments made to Brownsville Water System for wastewater disposal that were incorrectly recorded as pumping – Labor, Materials, and Expenses. Commission Staff agrees with Edmonson District’s proposal to reclassify expenses into the correct expense account. However, upon examination of the test year’s General Ledger, Commission Staff determined the amount paid to Brownsville Water Systems was \$10,551.²⁶ Therefore, Commission Staff decreased Pumping – Labor, Materials and Expenses by \$10,551, and increased Treatment and Disposal by \$10,551.

(D) Customer Records & Collection Expense – Labor Reallocation. In its application, Edmonson District proposed an adjustment to increase Customer Records & Collection Expense-Labor by \$847²⁷ to reflect reallocation of a percentage of office labor to the sewer division. Edmonson District stated that all expenses for Customer Records & Collections were reported to the water division. Edmonson District proposed to allocate a portion of labor expenses between the Sewer Division and Water Division based upon the customer count for each division. Edmonson District provided the total number of customers for each division.²⁸ Commission Staff agrees with the allocation methodology and allocated 0.502 percent of Salaries and Wages – Customer Accounts to the sewer division as shown below.

²⁵ Application, Attachment 4, 04_SAO_andRev_Reqmt.pdf, Adjustment C.

²⁶ Edmonson District’s Response to Staff’s First Request, Item 1e, EC1_1.a-2021_Sewer_General_Ledger.xls, Account #70130-00.

²⁷ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment D.

²⁸ Edmonson District’s Response to Staff’s First Request, Item 1i, EC1_1.i-SAO_Adjustments.xlsx.

	<u>Customers</u>	<u>Allocation Percentage</u>
Water Customers	11,099	99.498%
Sewer Customers	56	0.502%
Total Customers	<u>11,155</u>	<u>100.000%</u>

Edmonson District provided the test year total Salaries and Wages – Customer Accounts of \$168,791.²⁹ Therefore, as shown below, Commission Staff increased Customer Records & Collection Expense – Labor by \$847.

Salaries & Wages Customer Accounts	\$ 168,791
Multiplied by Allocation percentage	<u>0.502%</u>
Allocated Salaries and Wages Customer Accounts	<u>\$ 847</u>

(E) Administrative and General Salaries- Reallocation. In its application, Edmonson District proposed an adjustment to increase Customer Records & Collection Expense-Labor by \$847³⁰ to reflect to reallocation of a percentage of office labor to the sewer division. Edmonson District stated all expenses for Administrative and General Salaries were reported to the water division. Edmonson District proposed the same allocation methodology discussed in Adjustment (D). Edmonson District provided the test year Salaries and Wages/Administrative and General of \$154,020.³¹ Commission Staff

²⁹ Edmonson District's Response to Staff's Second Request, Item 3, EC2_3-2021_Water_Trial_Balance.xls, Account 60170-00 Sal & Wages/Cust Accts.

³⁰ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment E.

³¹ Edmonson District's Response to Staff's Second Request, Item 3, EC2_3-2021_Water_Trial_Balance.xls, Account 60180-00 Sal & Wages/Admin & Gen.

agrees with the allocation method, and as shown below, Commission Staff increased Administrative and General Salaries by \$773.

Salaries and Wages Administrative and General Salaries	\$ 154,020
Multiplied by Allocation percentage	<u>0.502%</u>
Allocated Salaries and Wages Administrative and General Salaries	<u><u>\$ 773</u></u>

(F) Administrative and General Salaries – Commissioner Salaries. In its application, Edmonson District did not include the commissioner’s salaries. During the test year, Edmonson District stated that all commissioner’s salaries were reported to the water division.³² Commission Staff utilized the same allocation methodology discussed in Adjustment (D). Edmonson District provided the fiscal court minutes approving the appointment and compensation for commissioners.³³ Commission Staff normalized all five commissioner’s salaries, then allocated 0.502 percent from the water division to the sewer division. Therefore, as shown below, Commission Staff increased Administrative and General Salaries by \$151.

<u>Commissioners</u>	<u>Pro Forma Salaries</u>
Jimmy Mills	\$ 6,000
Barry Rich	6,000
Gregory Nugent	6,000
Blake Aubrey	6,000
Jarrold Beatty	<u>6,000</u>
Total	30,000
Multiplied by Allocation percentage	<u>0.502%</u>
Allocated Commissioner Salaries	<u><u>\$ 151</u></u>

³² Telephone conversation with Latisha Elmore, Bookkeeper of Edmonson District (May. 3, 2023).

³³ Edmonson District’s Response to Staff’s Second Request (filed Mar. 2, 2023), Item 1, EC2_1-Fiscal_Ct_Minutes.pdf.

(G) Office Supplies and Other Expenses. In its application, Edmonson District reported Office Supplies and Other Expenses of \$522.³⁴ Commission Staff reviewed and reconciled the application to the test-year adjusted trial balance and noticed Account 92180-00 Office Supplies/Admin & Gen was mistakenly not included in the calculation for office supplies and other expenses. Therefore, Commission Staff increased Office Supplies and Other Expenses by \$47 to properly record the expense.

(H) Employee Pensions and Benefits – Insurance. In its application, Edmonson District proposed an adjustment to increase Employee Pensions and Benefits by \$304³⁵ to reflect the allocation of health, dental, vision, and life insurance premiums; while also restricting insurance premiums to align with the Bureau of Labor Statistics’ limits.³⁶ Edmonson District proposed to allocate the insurance premiums based upon the total salaries between the Water and Sewer Divisions.

<u>Test Year Salaries</u>	<u>Salaries and Wages</u>	<u>Percentage Allocation</u>
Water Division Salaries	\$ 1,041,300	99.733%
Sewer Division Salaries	<u>2,791</u>	<u>0.267%</u>
Total Salaries	<u>\$ 1,044,091</u>	<u>100%</u>

Commission Staff agrees with this allocation methodology; however, based upon Adjustment (B) discussed above; Commission Staff calculated an allocation ratio of 0.3 percent, as shown below.

³⁴ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf.

³⁵ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment F.

³⁶ Edmonson District’s Response to Staff’s First Request, Item 1i, EC1_1.i-SAO_Adjustments.xlsx.

Test Year Salaries	Salaries and Wages	Percentage Allocation
Water Division Salaries	\$ 1,041,300	99.700%
Sewer Division Salaries	3,132	0.300%
Total Salaries	<u>\$ 1,044,432</u>	<u>100%</u>

During the test year, Edmonson District stated all insurance premiums were reported to the water division.³⁷ Consistent with precedent,³⁸ Commission Staff reduced Edmonson District’s single health insurance premiums by 22 percent³⁹ and dental insurance by 60 percent⁴⁰ as shown in the calculation below. Edmonson District provided a list of both field employees⁴¹ and office employees⁴² who currently work with the sewer division; as well as a copy of the most recent insurance invoices.⁴³ Accordingly, utilizing the most recent invoice amounts and applied the adjusted allocation percentage to allocate 0.3 percent of total insurance premiums paid to the sewer division. Commission

³⁷ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment F.

³⁸ 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.

³⁹ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁴⁰ 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); and Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

⁴¹ Edmonson District’s Response to Staff’s First Request, Item 1e, EC1_1.e-2021_2022_All_Hours_Worked.xlsx.

⁴² Edmonson District’s Response to Staff’s Second Request (filed Mar. 2, 2023), Item 5, EC2_5-Office_Empl_Swr_Tasks_EC2_1-Fiscal_Ct_Minutes.pdf.

⁴³ Edmonson District’s Response to Staff’s First Request, Item 4, EC1_4-Insurance_Invoices.pdf.

Staff calculated the proposed adjustment and increased Employee Pensions and Benefits by \$203 as shown below.

Type of Premium	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 6,772.48	22%	\$ (1,490)	\$ 5,282
Dental Insurance	256	60%	(154)	102
Vision Insurance	76	0%	-	76
Life Insurance	187	0%	-	187
Total Pro Forma Monthly Premium	\$ 7,291		\$ (1,644)	5,647
Times: 12 Months				<u>12</u>
Total Annual Pro Forma Premium				67,764
Multiplied by: Sewer Allocation Percent				<u>0.300%</u>
Allocated Insurance Premiums				203
Less: Test Year				<u>-</u>
Employee Pension and Benefits Adjustment				\$ 203

(l) Employee Pensions and Benefits – Retirement. In its application, Edmonson District proposed an adjustment increasing Employee Pensions and Benefits by \$223,⁴⁴ to account for the allocation of retirement expenses from the water division since none were recorded to the sewer division.⁴⁵ Edmonson District proposed to multiply total of Collection – Labor, Materials, and Expenses, Customer Records & Collection Expense – Labor, and Administrative and General Salaries, \$2,791,⁴⁶ by the contribution rate of 8 percent.⁴⁷

⁴⁴ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment F.

⁴⁵ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment F.

⁴⁶ Edmonson District's Response to Staff's First Request, Item 1i, EC1_1.i-SAO_Adjustments.xlsx.

⁴⁷ Edmonson District's Response to Staff's First Request, Item 1i, EC1_1.i-SAO_Adjustments.xlsx.

Commission Staff agrees with the proposed methodology; however as discussed in adjustment (B) Commission Staff calculated a different Collection – Labor, Materials, and Expenses. Edmonson District contributes 8 percent of the Employee’s Gross Salaries Expense for all full-time employees, into a 401(A)⁴⁸ retirement account for employees. Utilizing the salaries calculated in Adjustments (B), (D), and (E), and Edmonson District’s contribution rate of 8 percent; Commission Staff calculated a Pro Forma Retirement contribution of \$250 as shown below. Therefore, Commission Staff made an adjustment increasing Employee Pensions and Benefits by \$250.

Employee Pensions and Benefits	
Collection- Labor, Materials and Expenses	\$ 1,511
Customer Records & Collection Exp- Labor	847
Allowable Administrative and General Salaries	773
Total Pro Forma Salaries and Wages	3,131
Multiplied by: Employer Contribution Rate	8.00%
Pro Forma Retirement- Employer Contribution	250
Less: Test Year Retirement Contribution	-
Employee Pensions and Benefits Adjustment	\$ 250

(J) Transportation Expense. In its application, Edmonson District proposed an adjustment increasing Transportation Expense by \$152⁴⁹ to account for the allocation of transportation expenses from the water division since none were recorded to the sewer division.⁵⁰ Edmonson District stated all expenses for Transportation Expense were

⁴⁸ Telephone conversation with Latisha Elmore, Bookkeeper of Edmonson District (May 4, 2023).

⁴⁹ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment F.

⁵⁰ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment F.

reported to the water division. Commission Staff verified the total Transportation Expense reported to the Water Division as \$56,949.⁵¹

<u>Account #</u>	<u>Account Name</u>	<u>Amount</u>
65031-00	Transp Exp/Brn Plt	\$ 1,754
65032-00	Transp Exp/Wax Plt	1,747
65050-00	Transp Exp/Trans&Dist Op	52,039
65080-00	Transp Exp/Admin & Gen	1,408
	Total	<u>\$56,949</u>

Edmonson District proposed to allocate the Transportation Expenses with the same methodology discussed in Adjustment (H). Commission Staff agrees with this methodology; however, as discussed in Adjustment (H), Commission Staff proposed to use .300 percent instead. Therefore, as shown below, Commission Staff increased Transportation Expense by \$171.

Total Transportation Expense	\$56,949
Multiplied by: Allocation percentage	<u>0.300%</u>
Transportation Expense Allocation	<u>\$ 171</u>

(K) Depreciation. In its application, Edmonson District proposed an adjustment to decrease Depreciation Expense by \$22,421⁵² to reflect the adjustment of asset service lives based upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study). The proposed adjustment also includes the removal of assets not

⁵¹ Edmonson District's Response to Staff's Second Request (filed Mar. 2, 2023), Item 3, EC2_3-2021_Water_Trial_Balance.xls.

⁵² Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment G.

owned by Edmonson District.⁵³ Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Upon examination, Commission Staff agrees with Edmonson District’s proposed adjustment to adjust depreciation expense. Therefore, Commission Staff decreased Edmonson District’s Depreciation Expense by \$22,421 to \$40,859 as shown below.

<u>Catagories</u>	<u>Service Life Range</u>	<u>Test Year Depreciation</u>	<u>Depreciation Adjustment</u>	<u>Pro Forma Depreciation</u>
Communications	5 - 20	\$ 1,846	\$ (369)	\$ 1,477
Building	35 - 40	920	-	920
Trailer and Hitch	15 - 20	348	-	348
Tools, Shop & Garage Equipment	15 - 20	64	52	116
Power Operated Equipment	10 - 15	941	141	1,082
Safety & Flow Measuring Equipment	15 - 20	1,179	24	1,203
Pumping Equipment	20	8,725	-	8,725
Collection Sewers	30 - 75	1,264	241	1,505
Collection Sewers	0	26,187	(26,187)	-
Collection Sewers	30 - 75	20,692	3,941	24,633
Services to Customers	30 - 50	1,116	(266)	850
		<u>\$ 63,280</u>	<u>\$ (22,421)</u>	<u>\$ 40,859</u>

(L) Depreciation Phase-in. In its application, Edmonson District proposed an adjustment to decrease Depreciation Expense by \$20,430⁵⁴ to reflect only one half of depreciation expense into the revenue requirement calculation. Edmonson District stated that all operating expenses and debt service is covered, plus \$20,000 available for Depreciation with the proposed rates.⁵⁵ In addition, the wastewater system is relatively new, starting operations in 2006.⁵⁶ Edmonson District stated that recovery of the full depreciation would cause an undue hardship on customers, especially since this

⁵³ Application, Attachment 7, 07_Depreciation_Schedule.pdf. “During the rate study, it was

⁵⁴ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment H.

⁵⁵ Application, 00a_Read_1st.pdf.

⁵⁶ Application, 00a_Read_1st.pdf.

additional revenue is not needed.⁵⁷ Commission Staff disagrees with only including one half of Depreciation Expense as proposed by Edmonson District. Limiting Depreciation Expense to one-half would not allow adequate working capital to fund operations and future plant replacements. While the system is currently in good operation condition, it will eventually require capital to be maintained or replaced. If the appropriate levels of depreciation are not timely funded, the funds may not be available when needed. Therefore, Commission Staff included the full amount of depreciation expense in the revenue requirement and recommends the Commission reject Edmonson District's proposed adjustment.

(M) Taxes other than Income - FICA. In its application, Edmonson District proposed an adjustment to increase Taxes other than Income by \$211⁵⁸ to account for an increase in payroll taxes due to the proposed adjustments to increase Salaries. However, as explained in Adjustments (B), (D), (E), and (F) above, Commission Staff calculated pro forma Collection – Labor, Materials and Expenses as \$1,511, Customer Records & Collection Exp. – Labor as \$847, and Administrative and General Salaries as \$924. Commission Staff calculated Payroll Taxes to be \$251; an increase of \$248 as shown below. Therefore, Commission Staff increased Taxes Other than Income by \$248.

⁵⁷ Application, 00a_Read_1st.pdf.

⁵⁸ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf, Adjustment G.

	Staff Pro Forma
Collection- Labor, Materials and Expenses	\$ 1,511
Customer Records & Collection Exp- Labor	847
Administrative and General Salaries	<u>924</u>
 Total Pro Forma Salaries	 3,282
Times: 7.65 Percent FICA Rate	<u>7.65%</u>
 Total Pro Forma Payroll Taxes	 251
Less: Test Year Payroll Taxes	<u>(3)</u>
 Payroll Tax Adjustment	 <u>\$ 248</u>

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied the 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 noncash item, to provide working capital;⁵⁹ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

While Commission Staff recommends including the full Depreciation expense in the revenue requirement, Edmonson District proposed to only recover half of the

⁵⁹ 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).

depreciation expense in order to avoid an unnecessary burden on Edmonson District's wastewater customers. If the Commission includes only half of the Depreciation expense as proposed by Edmonson District it would result in a revenue Requirement increase of \$24,587, or 140.36 percent, as shown below.

	Edmonson District	Commission Staff	
		1/2 Depreciation	Full Depreciation
Pro Forma Operating Expenses	\$ 37,022	\$ 37,541	\$ 57,971
Plus: Avg. Annual Principal and Interest Payments	5,242	5,242	5,224 (1)
Additional Working Capital	1,048	1,048	1,045 (2)
Total Revenues Requirement	43,313	\$ 43,831	\$ 64,240
Less: Other Operating Revenue	(449)	(449)	(449)
Interest and Dividend Income	(1,277)	(1,277)	(1,277)
Revenue Required From Sewer Sales	42,864	42,105	62,514
Less: Revenue from Sales at Present Rates	(17,518)	(17,518)	(17,518)
Required Revenue Increase	\$ 25,345	\$ 24,587	\$ 44,996
Percentage Increase	144.68%	140.36%	256.86%

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Edmonson District had one outstanding loan from the United States Department of Agriculture, Rural Development (RD).⁶⁰ In its application, Edmonson District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal and interest and fee payments for the years 2023 through 2027.⁶¹ However, because the statutory date for a final Order to be issued in this proceeding is December 13, 2023, the 2023 payments will

⁶⁰ Case No. 2005-00203, *The Application of Edmonson County Water District (1) for a Certificate of Public Convenience and Necessity Authorizing Construction of a New Sanitary Sewer System; (2) Seeking Approval of Sanitary Sewer Service Rates and Charges; and (3) Seeking Approval of the Issuance of Certain Securities* (Ky. PSC June 13, 2005).

⁶¹ Application, Attachment 4, 04_SAO_and_Rev_Reqmt.pdf.

be recovered through Edmonson District’s existing rates. Therefore, only debt service payments that will be made after the new rates are placed into effect should be considered in determining Edmonson District’s Annual Principal and Interest expense. Commission Staff calculated the average annual principal and interest on a five-year average for the years 2024 through 2028. As shown below, Commission Staff calculated an Average Principal and Interest of \$5,224.

Debt Service Schedule			
USDA_RD Loan 92-26			
Year	Principal	Interest	Total
2024	\$ 2,100	\$ 3,120	\$ 5,220
2025	2,200	3,026	5,226
2026	2,300	2,928	5,228
2027	2,400	2,826	5,226
2028	2,500	2,720	5,220
Total			26,120
Divide by: 5 years			5
Average Annual Interest Payment			<u>\$ 5,224</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, Edmonson District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its loan payable to KIA at the time of its application.

RD requires that Edmonson District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the

Commission’s historic practice,⁶² Commission Staff agrees with Edmonson District’s methodology. However, Commission Staff calculated a different average annual principal and interest amount; therefore, as calculated below and shown in the table above, \$1,045 is included it in the revenue requirement.

Additional Working Capital	
Average Annual Principal and Interest	\$ 5,224
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	6,269
Less: Average Annual Principal and Interest Payments	(5,224)
Additional Working Capital	\$ 1,045

⁶² Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022); Case No. 2022-00117, *Electronic Application of Bronston Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 12, 2022); and Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022).

Signatures

/s/ William Foley

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Revenue Requirement Branch
Division of Financial Analysis

/s/ Elizabeth Stefanski

Prepared by: Elizabeth Stefanski
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APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00037 DATED JUN 05 2023

The following rates and charges are prescribed for the customers in the area served by Edmonson County 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 Wastewater Rates

PHASE 1

Residential

First	1,500	Gallons	\$23.20	Minimum Bill
Over	1,500	Gallons	\$0.00875	Per Gallon

Commercial

First	1,500	Gallons	\$34.80	Minimum Bill
Over	1,500	Gallons	\$0.01312	Per Gallon

PHASE 2

Implemented one year after the effective date of the Phase 1 rates

Residential

First	1,500	Gallons	\$46.40	Minimum Bill
Over	1,500	Gallons	\$0.01749	Per Gallon

Commercial

First	1,500	Gallons	\$69.59	Minimum Bill
Over	1,500	Gallons	\$0.02623	Per Gallon

Nonrecurring Charges

Reconnection Charge	\$3.00
Meter Test Fee	\$3.00

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