

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LAUREL)	CASE NO.
COUNTY WATER DISTRICT NO. 2 FOR AN)	2021-00385
ALTERNATIVE RATE ADJUSTMENT)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of May 19, 2022, 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 February 18, 2022 Order, Laurel County Water District No. 2 (Laurel District No. 2) 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 Laurel District No. 2 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 JUL 13 2022

cc: Parties of Record

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

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LAUREL)	CASE NO.
COUNTY WATER DISTRICT NO. 2 FOR AN)	2021-00385
ALTERNATIVE RATE ADJUSTMENT)	

COMMISSION STAFF'S REPORT ON
LAUREL COUNTY WATER DISTRICT NO. 2

Laurel County Water District No. 2 (Laurel District No. 2), a water district organized pursuant to KRS Chapter 74, provides water service to approximately 6,251 residential, commercial, and industrial customers in Knox and Laurel counties, Kentucky.¹ In the final Order for Case No. 2020-00079,² Laurel District No. 2 was ordered to file an application by April 8, 2021, for either a traditional adjustment in rates or for an alternative rate adjustment to ensure its revenue is sufficient to support adequate and reliable service. By Commission Order dated February 25, 2021 Laurel District No. 2 was granted an extension until October 8, 2021 to submit its base rate application.

On October 7, 2021, Laurel District No. 2 tendered its application to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. By letter dated October 18, 2021, Laurel District No. 2 was notified that its application was deemed

¹ *Annual Report of Laurel County Water District No. 2 to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

² See Case No. 2020-00079 *Electronic Application of the Laurel County Water District No. 2 for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC April 8, 2020).

deficient. Laurel District No. 2’s cured these deficiencies and by letter dated February 10, 2022, the application was deemed filed.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated February 18, 2022. On May 11, 2022, Laurel District No. 2 submitted its motion requesting an extension of time until June 15, 2022, to fully respond to Commission Staff’s Fourth Request for Information. By its Order dated May 19, 2022, the Commission granted Laurel District No. 2’s motion and amended the procedural schedule to extend the remaining deadlines.

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15.00 percent for ratemaking purposes. The Commission Staff notes that Laurel District No. 2 reported a water loss of 11.29 percent in its 2020 Annual Report.³ At an 11.29 percent water loss, the total annual cost of water loss to Laurel District No. 2 is \$205,471.⁴

To comply with the requirements of 807 KAR 5:076, Section 9, Laurel District No. 2 based its requested rates on a historic test period that coincides with the reporting period shown in its most recent Annual Report on file with the Commission, the calendar year ended December 31, 2020.⁵

Using the Debt Service Coverage (DSC) method, its pro forma test-year operations, and its updated Debt Service payments, Laurel District No. 2 determined in

³ 2020 Annual Report at 57.

⁴

	Purchased Water	Purchased Power	Chemicals	Total
Allowable Purchases	\$ 402	\$ 164,262	\$ 66,342	\$ 231,006
Multiplied by: Water Rate per 1,000 Gallons	11.29%	11.29%	11.29%	11.29%
Total Cost of Line Loss	<u>\$ 45</u>	<u>\$ 18,545</u>	<u>\$ 7,490</u>	<u>\$ 26,081</u>

⁵ Application at 3.

its updated calculations it could justify a revenue decrease of \$351,840, or (11.22) percent.⁶ Laurel District No. 2 did not propose updated rates, stating that its revenue requirement calculation using the DSC method indicated that there is no required rate increase at this time.⁷

Pro Forma Operating Expenses	\$ 2,477,196
Plus: Average Annual Debt Service	450,927
Debt Service Coverage Requirement	<u>90,185</u>
Overall Revenue Requirement	3,018,308
Less: Other Operating Revenue	(216,963)
	(15,129)
Interest Income	<u>(3,140)</u>
Revenue Required from Water Sales	2,783,076
Less: Normalized Revenues from Water Sales	<u>(3,134,916)</u>
Required Revenue Increase/(Decrease)	<u>\$ (351,840)</u>
Percentage Increase	<u><u>-11.22%</u></u>

To determine the reasonableness of Laurel District No. 2's revenue requirement calculation, Commission Staff performed a limited financial review of Laurel District No. 2'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 measurable changes to test-year operations were identified and adjustments were 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. Mark Frost reviewed Laurel District No. 2's Pro Forma Operating Expenses and its Overall Revenue

⁶ Application, Revenue Requirements Calculation.

⁷ Application, Reasons for Application and Current and Proposed Rates.

Requirement. Eddie Beavers reviewed Laurel District No. 2's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, as generally accepted by the Commission, Commission Staff found that Laurel District No. 2's required Overall Revenue Requirement is \$3,116,164. To meet the Overall Revenue Requirement, Laurel District No. 2 requires a \$184,314 or 5.88 percent revenue decrease to Pro Forma present rate revenues.

2. Monthly Water Service Rates. Laurel District No. 2 proposed no increase to its monthly retail and bulk water service rates. Laurel District No. 2 has not performed a cost of service study (COSS). Laurel District No. 2 stated that it did not complete a COSS at this time as there has been no material changes in the water system.⁸

Laurel District No. 2 asserts the rates currently being charged will produce sufficient revenues to meet its current operation and maintenance expenses.

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 water sales to recover the \$2,950,262 Revenue Required from Rates, an approximate 5.88 percent decrease. These rates will decrease a typical residential customer's monthly water bill from \$32.58 to \$30.83, a decrease of \$1.75, or approximately 5.37 percent.⁹

⁸ Laurel District No. 2 Response to Commission Staff's First Request for Information (Staff's First Request) (filed Mar. 11, 2022), Item 5.

⁹ The typical residential customer uses approximately 4,000 gallons per month.

Commission Staff recommends that Laurel District No. 2 in its response to this Commission Staff Report explain why the rates in the Appendix should not be ordered by the Commission to be charged going forward. If the Commission decides not to require the rates in the Appendix, Commission Staff would recommend that Laurel District No. 2 be required to file a general rate case or an ARF application within 3-5 years, or in the alternative, file a formal motion with detailed support demonstrating why no rate increase is necessary. As discussed below, Commission Staff does recommend an adjustment to nonrecurring charges.

Nonrecurring Charges. Following the Commission’s recent decisions,¹⁰ Commission Staff has reviewed Laurel District No. 2’s nonrecurring charges. The Commission found that as district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Commission Staff has reviewed the most recent cost justification information provided in the responses to Commission Staff Request for Information.¹¹ Such adjustments result in the following revised nonrecurring charges:

<u>Nonrecurring Charge</u>	
Additional Trip Charge	\$ 13.00
Meter Reread Charge	\$ 13.00
Meter Test Charge	\$ 27.00
Return Check Charge	\$ 13.00

¹⁰ 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. 2020-00167, *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).

¹¹ Laurel District No. 2 Response to Staff’s First Request (filed Mar. 11, 2022), Item 9 and Laurel District No. 2 Response to Commission Staff’s Second Request for Information (Staff’s Second Request) (filed Apr. 7, 2022), Item 9.

Service Reconnection Charge	\$ 25.00
Service Reconnection Charge, After Hours	\$ 80.00
5/8-Inch x 3/4-Inch Meter	\$1,007.00

The adjustments to the nonrecurring charges result in a decrease to the charges and an increase to the total revenue requirement of \$41,581 as shown below. Commission Staff recommends that Laurel District No. 2 should adjust its Nonrecurring charges to those found in the Appendix to this report.

	Num	Rate	Total	Revised Rate	Adj.	Pro Forma
Miscellaneous Service Revenues:						
Additional Trip Charge	2	\$26	52	\$13	(\$26)	\$26
Meter Test Charge	1	\$40	81	\$27	(\$54)	\$27
Returned Check Charge	29	\$52	1,160	\$13	(\$783)	\$377
Service Connection/Reconnect Charge	1498	\$52	77,896	\$25	(\$40,446)	\$37,450
Service Connection/Reconnect Charge AH	16	\$97	1,552	\$80	(\$272)	\$1,280
Total Miscellaneous Service Revenues			\$80,741		(\$41,581)	\$39,160

PRO FORMA OPERATING STATEMENT

Laurel District No. 2's Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Commission Staff, appears below.

	Test Year Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Total Metered Sales	\$ 2,851,807	\$ 283,109	A	\$ 3,134,916
Other Water Revenues:				
Misc. Service Revenues	150,088	4,778	B	
		(41,581)	C	
		34,008	D	147,293
Total Operating Revenues	<u>3,001,895</u>	<u>280,314</u>		<u>3,282,209</u>
Operating Expenses:				
Operation and Maintenance:				
Salaries and Wages - Employees	804,759	(12,331)	E	792,428
Salaries and Wages - Officers	30,000			30,000
Employee Pensions and Benefits	870,667	(320,853)	F	
		(105,425)	G	444,389
Purchased Water	402			402
Purchased Power	164,262			164,262
Chemicals	66,342			66,342
Materials and Supplies	97,252			97,252
Contractual Services	22,986			22,986
Water Testing	14,403			14,403
Rent - Equipment	70			70
Transportation Expenses	23,191			23,191
Insurance - Vehicle	25,958			25,958
Bad Debt	10,557			10,557
Miscellaneous Expenses	65,922			65,922
Total Operation and Mnt. Expenses	2,196,771	(438,609)		1,758,162
Depreciation Expense	539,451	59,009	H	598,460
Amortization Expense	6,092			6,092
Taxes Other Than Income	66,397	(3,481)	I	62,916
Total Operating Expenses	<u>2,808,711</u>	<u>(383,081)</u>		<u>2,425,630</u>
Net Utility Operating Income	<u>\$ 193,184</u>	<u>\$ 663,395</u>		<u>\$ 856,579</u>

(A) Billing Analysis. Laurel District No. 2 proposed to increase its test-year revenues from water sales of \$2,851,807 by \$283,109 to reflect the rate increase approved by the Commission in Case No. 2020-00079. Laurel District No. 2's adjustment

meets the ratemaking criteria of being known and measurable¹² and Commission Staff accepts the adjustment in Pro Forma operations.

(B) Double Hook Fees. Laurel District No. 2 has metered customers that have a connection made to a customer's side of the meter, when discovered, Laurel District No. 2 charges an additional minimum bill to these customers. Laurel District No. 2 made an adjustment to Miscellaneous Revenues to reflect the increased revenue for January through April of the test year to reflect the annualized level of income for these months provided by the rate increase approved by the Commission in Case No. 2020-00079.¹³ Laurel District No. 2's adjustment meets the ratemaking criteria of being known and measurable and Commission Staff accepts the adjustment in Pro Forma operations.

(C) Nonrecurring Charges. As discussed above, the adjustments to the nonrecurring charges result in a decrease to the charges and an increase to the total revenue requirement of \$41,581.

(D) Forfeited Discounts. During the test year, Laurel District No. 2 recorded \$11,707 in Forfeited Discounts. Given that the test year occurred during the moratorium regarding the collection of late payment fees due to the COVID-19 pandemic, Commission Staff normalized the revenue from Forfeited Discounts using a three-year

¹² See, 807 KAR 5:001, Section 16.1.(a).; Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefor; (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); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

¹³ Application, Statement of Adjusted Operations, References, Reference A.

average of the reported income from late fees in the years 2017, 2018, and 2019. Based upon a three-year average of \$45,715, Commission Staff increased Miscellaneous Service revenues by \$34,008.

2017	\$	46,518
2018		46,708
2019		<u>43,918</u>
3-Year Total		45,715
Less: Test Year Fees		<u>(11,707)</u>
Pro Forma Adjustment	\$	<u><u>34,008</u></u>

(E) Salaries and Wages - Employees. Laurel District No. 2 reported a test year Employee Salaries and Wages expense of \$804,759.¹⁴ An adjustment to reflect the actual 2021 wage rates would meet the ratemaking criteria of being known and measurable.¹⁵ Using Laurel District No. 2’s current staff level of 17 full-time employees, and the 2021 employee wage rates, Commission Staff calculates a pro forma Employee Salaries and Wages expense of \$792,428, which is \$12,331, below the reported expense level. Commission Staff’s calculation is in the table below.

¹⁴ Application, Statement of Adjusted Operations, Schedule of Adjusted Operations – Water Utility.

¹⁵ See, 807 KAR 5:001, Section 16.1.(a).; Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefor; (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); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

Position	Pay Type	Test-Year Hours			Pay Rate 12/31/2021	Pro Forma Salaries
		Regular	Overtime	Holiday		
Cust.Serv./Admin	Hourly	2,080	0	80	\$ 20.00	\$ 43,200
Superintendent	Salary	0	0	0	\$ 87,514.00	87,514
Cust. Serv./Admin	Hourly	2,080	5	80	\$ 17.39	37,687
Off.Mgr./Asst.Supt./Accountant	Salary	0	0	0	\$ 73,582.00	73,582
Customer Service Clerk	Hourly	2,080	7	80	\$ 15.65	33,962
Customer Service Clerk	Hourly	2,080	0	0	\$ 15.30	31,824
Distribution Supervisor	Salary	0	0	0	\$ 51,688.00	51,688
Distribution Operator	Hourly	2,080	116	80	\$ 19.14	44,659
Distribution Operator/Mapping	Hourly	2,080	89	80	\$ 19.07	43,727
Distribution Operator	Hourly	2,080	0	0	\$ 14.68	30,534
Meter Technician	Hourly	2,080	39	80	\$ 16.07	35,640
Plant Mgr./Asst. Supt.	Salary	0	0	0	\$ 60,823.00	60,823
Plant Operator/Safety/Mapping	Hourly	2,080	44	80	\$ 21.41	47,673
Plant Operator	Hourly	2,080	1	80	\$ 18.22	39,383
Plant Operator/Equip Maint	Hourly	2,080	2	80	\$ 21.21	45,878
Plant Operator	Hourly	2,080	2	80	\$ 19.06	41,231
Plant Operator	Hourly	2,080	5	80	\$ 20.04	43,423
Pro Forma Employee Salaries and Wages						792,428
Less: Test-Year Employee Salaries and Wages						<u>(804,759)</u>
Pro Forma Adjustment						<u>\$ (12,331)</u>

(F) County Employee Retirement System (CERS). Laurel District No. 2 reported a test year employee pension expense of \$534,412. Laurel District No. 2 provides pension benefits and post-retirement health care benefits to its employees by participating in the CERS. As a participating member, Laurel District No. 2 is required to contribute a percentage of its employee wages to CERS. The CERS pension expense Laurel District No. 2 reported in the test year conformed to the requirements of the General Accounting Standards Board Pronouncement No. 68 (GASB 68).

Laurel District No. 2 explained that, due to GASB reporting requirements for retirement plan liabilities, an expense of \$342,387 associated with the CERS pension plan was included in Employee Pensions and Benefits expense.¹⁶ Because these reported CERS liabilities were not actual cash payments made to CERS, Laurel District

¹⁶ Application, Statement of Adjusted Operations, Schedule of Adjusted Operations – Water Utility, Adjustment C and References, Adjustment C.

No. 2 proposed an adjustment of \$342,387 to remove this amount from Employee Pensions and Benefits expense.¹⁷

In Case No. 2016-00163,¹⁸ the Commission discussed in great detail the reporting requirements of GASB 68, and how those requirements would impact a utility's income statement and balance sheet. In that proceeding, the Commission found the annual pension expense should be equal to the amount of a district's contributions to CERS, which historically have been "fairly constant." In the fiscal year, beginning July 1, 2021, the CERS employer contribution rate increased to 26.95 percent. Based on the above, Commission Staff determined that Laurel District No. 2's pro forma CERS employer contributions are \$213,559, resulting in a decrease to Employee Pensions and Benefits expense of \$320,853.¹⁹

(G) Employee Benefits. Laurel District No. 2 proposed to increase its test-year Employee Pension and Benefits expense of \$340,441 by \$10,872 to reflect the current Anthem employee health insurance premiums.²⁰ Laurel District No. 2 currently pays 100 percent of the monthly premiums for health coverage (Single, Family, Couple, and Parent Plus) for its eligible full-time employees.²¹

¹⁷ Application, Statement of Adjusted Operations, Schedule of Adjusted Operations – Water Utility, Adjustment C and References, Adjustment C.

¹⁸ Case 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

¹⁹ $\$792,428$ (Pro Forma Employee Salaries and Wages expense) \times 26.95% (CERS Employer Contribution Rate) = $\$213,559$ (Pro Forma CERS Employer Contribution) - $\$534,412$ (Reported CERS Contribution) = $\$320,853$.

²⁰ Laurel District No. 2's Response to Staff's First (filed Mar. 11, 2022), Item 1.g. and Laurel District No. 2's Responses to Staff's Second Request (filed April 7, 2022), Item 3.

²¹ Laurel District No. 2's Response to Staff's First Request (filed Mar. 11, 2022), References, Ref. F.

Commission Staff notes that the Commission has consistently made ratemaking adjustments to reduce the cost of employee benefit packages paid by some utilities when certain aspects of those benefit packages were found to be unreasonable based on a review of total salaries and fringe benefits. The Commission continues to place greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. It has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.

Consistent with past precedent,²² in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee's health insurance coverage; Commission Staff reduced Laurel District No. 2's single health insurance premiums by 22 percent for individual health insurance, and 34 percent for family/couple/parent plus insurance.²³ Factoring in the preceding, Commission Staff decreased Employee Pensions and Benefits by \$105,425, as shown in the calculation below.

²² 807 KAR 5:001, Section 16(1)(a); Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness therefor; (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); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

²³ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>)

Description	Pro Forma Employee Ins. Exp.	Avg. Emp. Contribution Rate	Premium Adjustment	Adjusted Employee Ins. Exp.
Health Insurance - Single	\$ 62,292	22%	\$ (13,704)	\$ 48,588
Health Insurance - Family Couple & Parent Plus	172,164	34%	(58,536)	113,628
Dental Insurance	-	60%	-	-
Health Reimbursement Account	72,800			72,800
Life Insurance	-			-
AD&D	-			-
			<u>\$ (72,240)</u>	<u>\$ 235,016</u>
Pro Forms Employee Insurance Premiums				235,016
Less: Test-Year Employee Insurance Premiums - 2020 TB Employee Benefits				<u>(340,441)</u>
Pro Forma Adjustment				<u>\$ (105,425)</u>

(H) Depreciation. Laurel District No. 2 reported a test-year Depreciation expense of \$539,451.²⁴ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study). When no evidence exists to support a specific life that is inside or outside the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC Study ranges to depreciate a utility plant. Upon its review of Laurel District No. 2's depreciation schedule, Commission Staff determined that Laurel District No. 2's adjusted depreciation lives are at the midpoint of the NARUC Study range for each asset category. Commission Staff finds Laurel District No. 2's depreciation adjustment to be reasonable and has decreased Depreciation expense by \$61,483.

²⁴ Application, Statement of Adjusted Operations, Schedule of Adjusted Operations – Water Utility.

In Case No. 2020-00079,²⁵ the Commission granted Laurel District No. 2 a Certificate of Public Convenience and Necessity to construct a 14-inch water main and a water storage tank. Following the NARUC Study depreciation ranges, Commission Staff calculated its increase to Depreciation expense of \$59,009 as shown in the table below.

	Contract 1 14-Inch Water Main	Overhead Allocation Factor	Contract 2 Water Storage Tank	Overhead Allocation Factor	Total
Actual Construction Costs	\$ 758,805	34.94%	\$ 1,412,666	65.06%	2,171,471
Add: Overhead Allocations	184,668		343,861		528,529
Completed Construction Cost	943,473		1,756,527		\$ 2,700,000
Divide by: NARUC Depreciation Lives	62.5		40.0		
Pro Forma Project Depreciation	\$ 15,096		\$ 43,913		
Total Staff Adjustment			\$ 59,009		

(l) Payroll Taxes. Laurel District No. 2 reported a test-year Payroll Tax expense of \$66,397.²⁶ Using Salaries and Wages expense subject to Federal Insurance Contributions Act (FICA) Tax of \$822,428 and the current FICA rate of 7.65 percent, Commission Staff calculated its pro forma FICA Tax expense adjustment of \$3,481.²⁷

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

Historically, the Commission has applied a DSC method to calculate the revenue requirement of water districts and water associations.²⁸ This method allows for recovery

²⁵ Case No. 2020-00079 *Electronic Application of the Laurel County Water District No. 2 for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Apr. 8, 2020).

²⁶ Application, Statement of Adjusted Operations, Schedule of Adjusted Operations – Water Utility.

²⁷ \$822,428 (Salaries and Wages expense) x 7.65% (FICA Tax Rate) = \$62,916 (Commission Staff's FICA Tax expense) - \$66,397 (Test-Year FICA Tax expense) = \$3,481.

²⁸ See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020); see also Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

of (1) cash-related pro forma operating expenses; (2) depreciation expense, a non-cash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts, and (4) working capital that is in addition to depreciation expense.

A comparison of Laurel District No. 2's and Commission Staff's calculations of the revenue requirement and required revenue increase using the DSC method is shown below:

	Laurel District No. 2	Commission Staff
Pro Forma Operating Expenses	\$ 2,477,196	\$ 2,425,630
Plus: Average Annual Debt Service	450,927	575,445
Debt Service Coverage Requirement	<u>90,185</u>	<u>115,089</u>
Overall Revenue Requirement	3,018,308	3,116,164
Less: Other Operating Revenue	(216,963)	(147,293)
Non-Operating Income	(15,129)	(15,129)
Interest Income	<u>(3,140)</u>	<u>(3,140)</u>
Revenue Required from Water Sales	2,783,076	2,950,602
Less: Normalized Revenues from Water Sales	<u>(3,134,916)</u>	<u>(3,134,916)</u>
Required Revenue Increase/(Decrease)	<u>\$ (351,840)</u>	<u>\$ (184,314)</u>
Percentage Increase	<u>-11.22%</u>	<u>-5.88%</u>

Average Annual Principal and Interest Payments.

Using the debt outstanding as of December 31, 2020, Laurel District No. 2 calculated an average annual debt service of \$450,927 and a 0.2 allowance for working capital of \$90,185.²⁹ At the time of Commission Staff's review, Laurel District No. 2 had one outstanding loan from the Kentucky Rural Water Finance Corporation (KRWFC),³⁰

²⁹ Application, Revenue Requirements Calculation, Revenue Requirement Calculation Debt Coverage Method.

³⁰ See KRWFC Series 210-A - Case No. 2020-00157, *Electronic Application of the Laurel County Water District No. 2 to Issue Securities in The Approximate Principal Amount of \$6,105,000 for the Purpose of Refunding Certain Outstanding Obligations of the District Pursuant To The Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC June 23, 2020).

two outstanding loans from the Kentucky Infrastructure Authority (KIA),³¹ and three bond issuances from the U.S. Department of Agriculture's Rural Development (RD).³² Using the Laurel District No. 2's current debt outstanding, Commission Staff calculated an average annual debt service of \$575,445 and a 0.2 allowance for working capital of \$115,089, as shown in the Table below.

Debt Issuance	2022	2023	2024	2025	2026	Totals
KIA B Loan, 1996	\$ 19,101	\$ 18,866	\$ 19,030	\$ 18,992	\$ 9,483	\$ 85,472
RD, Series 2010B	102,290	112,515	102,195	102,345	102,450	521,795
RD, Series 2018	56,556	56,458	56,346	56,220	56,574	282,154
KIA B Loan B19-005	16,848	16,819	16,791	16,763	16,735	83,956
KRWFC Loan 210-A	308,994	308,150	311,987	310,505	298,812	1,538,448
RD, Series 2021 A	48,688	64,806	64,729	64,643	64,548	307,414
RD, Series 2021 B	9,063	12,020	12,415	12,301	12,188	57,987
5-Year Totals	<u>\$ 561,540</u>	<u>\$ 589,634</u>	<u>\$ 583,493</u>	<u>\$ 581,769</u>	<u>\$ 560,790</u>	<u>\$ 2,877,226</u>
5-Year Averages	<u>\$ 112,308</u>	<u>\$ 117,927</u>	<u>\$ 116,699</u>	<u>\$ 116,354</u>	<u>\$ 112,158</u>	<u>\$ 575,445</u>

³¹ See KIA B Loan, 1996 - Case No. 1995-00551, *In the Matter of the Application of Laurel County Water District #2 for a Certificate of Public Convenience and Necessity to Construct Water System Improvements and Extensions and for Approval of Financing* (Ky. PSC Feb. 20, 1996); and KIA B Loan, B19005 – Case No. 2019-00221, *Application of Laurel County Water District #2 for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to The Provisions of KRS 278.020, KRS 278.300, and 807 KAR 5:001* (Ky. PSC Aug. 23, 2019).

³² RD Revenue Bonds, Series 2010 B, Case No. 2010-00126, *Application of Laurel County Water District No. 2 of Laurel County, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC April 20, 2010); RD Revenue Bonds, Series 2018, Case No. 2017-00397, *Application of Laurel County Water District No. 2 for a Certificate of Public Convenience and Necessity to Construct and Finance a Project Pursuant to KRS 278.023* (Ky. PSC Oct. 26, 2017); and RD Revenue Bonds, Series 2021A and Series 2021B, Case No. 2020-00079, *Laurel County Water District No. 2* (Ky. PSC Apr. 8, 2020).

Signatures

/S/ Mark Frost

Prepared by: Mark Frost
Revenue Requirement Branch
Division of Financial Analysis

/s/ Eddie Beavers

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

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00385 DATED JUL 13 2022

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	1,000 Gallons	\$14.13	Minimum Bill
Next	99,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

Double Hookups

\$14.13	Minimum Bill
---------	--------------

1-Inch Meter

First	5,000 Gallons	\$36.45	Minimum Bill
Next	95,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$64.35	Minimum Bill
Next	90,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$120.15	Minimum Bill
Next	80,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$175.95	Minimum Bill
Next	70,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$287.55	Minimum Bill
Next	50,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

Campground 1

First	4,000 Gallons	\$48.86	Minimum Bill
Next	96,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

Campground 9

First	5,000 Gallons	\$36.20	Minimum Bill
Next	95,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

Mananterprises

First	22,000 Gallons	\$257.24	Minimum Bill
Next	78,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

KTR

First	49,000 Gallons	\$569.80	Minimum Bill
Next	51,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

Chestnut Greene

First	26,000 Gallons	\$303.55	Minimum Bill
Next	74,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

Brandeis

First	50,000 Gallons	\$284.62	Minimum Bill
Next	50,000 Gallons	5.58	Per Gallon
Over	100,000 Gallons	4.95	Per Gallon

Corbin Manor

First	200,000 Gallons	\$284.62	Minimum Bill
Over	200,000 Gallons	4.95	Per Gallon

Nonrecurring Charges

Additional Trip Charge	\$ 13.00
Meter Reread Charge	\$ 13.00
Meter Test Charge	\$ 27.00
Return Check Charge	\$ 13.00
Service Reconnection Charge	\$ 25.00
Service Reconnection Charge, After Hours	\$ 80.00
5/8-Inch x 3/4-Inch Meter	\$1,007.00

*Kenneth Fisher
Laurel County Water District #2
3910 South Laurel Road
London, KY 40744

*Laurel County Water District #2
3910 South Laurel Road
London, KY 40744

*Wanda Smith
Office Manager/Accountant
Laurel County Water District #2
3910 South Laurel Road
London, KY 40744