


COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GRANT	)	CASE NO.
COUNTY SANITARY SEWER DISTRICT FOR AN	)	2022-00377
ALTERNATIVE RATE ADJUSTMENT	)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Orders of January 10, 2023, and April 6, 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 10, 2023 and April 6, 2023 Orders, Grant County Sanitary Sewer District (Grant District) 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 Grant District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> 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

---

<sup>1</sup> 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 GRANT	)	CASE NO.
COUNTY SANITARY SEWER DISTRICT FOR AN	)	2022-00377
ALTERNATIVE RATE ADJUSTMENT	)	

COMMISSION STAFF'S REPORT  
ON GRANT COUNTY SANITARY SEWER DISTRICT

Grant County Sanitary Sewer District (Grant District) is a wastewater district organized pursuant to KRS Chapters 67 and 74 that owns and operates a wastewater distribution system through which it provides retail wastewater service to approximately 1,528 residential customers, 117 commercial customers, and five industrial customers that reside in Grant County, Kentucky.<sup>1</sup>

On December 13, 2022,<sup>2</sup> Grant 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,<sup>3</sup> Grant District used the calendar year ended December 31, 2021, as the basis for its application. Grant District's last base rate

---

<sup>1</sup> *Annual Report of Grant County Sanitary Sewer District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report), at 25 and 9.

<sup>2</sup> Grant District tendered its application on December 9, 2022. By letter dated December 12, 2022, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on December 13, 2022.

<sup>3</sup> 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.

increase pursuant to the alternative rate filing procedure was in Case No. 2019-00424.<sup>4</sup> To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 10, 2023. The city of Crittenden (Crittenden) is the only intervenor in this matter. Grant District responded to two discovery requests from Commission Staff<sup>5</sup> and two discovery requests from Crittenden.<sup>6</sup> On April 6, 2023, the Commission, on its own motion, revised the procedural schedule revising the due date for Commission Staff's Report to April 27, 2023.<sup>7</sup>

### DISCUSSION

Using its pro forma test-year operations, Grant District determined that a base rate revenue increase of \$94,778, or 12.1 percent, was necessary to achieve the revenue requirement as shown in the table below.<sup>8</sup> Grant District's sewer rates are based on the water consumption of its customers to cover all or most of the cost of certain services the District provides. The rates requested by Grant District would increase the residential monthly wastewater bill of a typical residential customer using 3,710 gallons of water per month by \$4.70 from \$38.82 to \$43.52, or approximately 12.1 percent.<sup>9</sup>

---

<sup>4</sup> Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020).

<sup>5</sup> See Grant District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 2, 2023); Grant District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Mar. 2, 2023).

<sup>6</sup> See Grant District's Response to City of Crittenden's First Request for Information (Crittenden's First Request) (filed Feb. 9, 2023); Grant District's Response to City of Crittenden's Second Request for Information (Crittenden's Second Request) (filed Mar. 2, 2023).

<sup>7</sup> Procedural Schedule Amendment Order (Ky. PSC Apr. 6, 2023).

<sup>8</sup> Application, Revenue Requirement Calculation, Revenue Requirement Calculation - Debt Coverage Method.

<sup>9</sup> Application, Attachment 1, Customer Notice of proposed rate adjustment.

	<u>Grant County Sanitary Sewer District</u>
Pro Forma Operating Expenses	\$ 769,230
Plus: Avg. Annual Principal and Interest Payments	121,209
Additional Working Capital	<u>12,121</u>
Total Revenue Requirement	902,560
Less: Other Operating Revenue	(23,070)
Interest Income	<u>(1,636)</u>
Revenue Required From Waste Water Sales	877,854
Revenue from Sales at Present Rates	<u>(783,076)</u>
Required Revenue Increase	<u><u>\$94,778</u></u>
Percentage Increase	<u><u>12.10%</u></u>

To determine the reasonableness of the rates requested by Grant District, Commission Staff performed a limited financial review of Grant 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 measurable<sup>10</sup> 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.

---

<sup>10</sup> 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).

Commission Staff's findings are summarized in this report. William Foley reviewed the calculation of Grant District's Overall Revenue Requirement and Elizabeth Stefanski reviewed Grant 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, Staff found that Grant District's required revenue from wastewater rates is \$876,817 to meet the Overall Revenue Requirement of \$899,904 and that a \$99,290 revenue increase, or 12.77 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, Grant District proposed to increase its monthly wastewater service rates evenly across the board. Grant District last performed a cost of service study (COSS) in 2013 for Case No. 2013-00404;<sup>11</sup> however, the COSS did not review current rates or the rate design.<sup>12</sup> Grant District stated that it did not complete a COSS at this time, as there has not been any material change in the wastewater system to warrant a COSS.<sup>13</sup> Grant District explained that it is currently evaluating whether to expand its Wastewater Treatment Plant (WTP) and has hired an engineering firm to create a Facilities Plan for the potential upgrade and expansion of the WTP.<sup>14</sup> Grant

---

<sup>11</sup> Case No. 2013-00404, *Application of Grant County Sanitary Sewer District for a Certificate of Public Convenience and Necessity to Construct and Approval to Finance a Sanitary Sewer Extension Project* (Ky. PSC Jan. 6, 2014).

<sup>12</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 14a.

<sup>13</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 14c.

<sup>14</sup> Grant District's Response to Staff's First Request, (filed Feb. 2, 2023), Item 14d.

District further explained that a COSS would be prepared after the Facilities Plan was completed and an expansion/upgrade plan concerning the WTP has been decided.<sup>15</sup>

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, Staff followed the method proposed by Grant District and allocated the \$99,290 revenue increase across the board to Grant 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 Staff, and will produce sufficient revenues from wastewater sales to recover the \$876,817 Revenue Required from Wastewater Sales, an approximate 12.77 percent increase. These rates will increase a typical customer's monthly wastewater bill from \$38.82 to \$43.58, an increase of \$4.76 or approximately 12.26 percent.<sup>16</sup>

3. Nonrecurring Charges. Following the Commission's recent decisions,<sup>17</sup> Commission Staff has reviewed Grant District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, and that the compensation is already recovered in rates, estimated labor costs previously

---

<sup>15</sup> Grant District's Response to Staff's First Request, (filed Feb. 2, 2023), Item 14d.

<sup>16</sup> Application, Customer Notice, typical wastewater customer uses approximately 3,710 gallons per month.

<sup>17</sup> 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).

included in determining the amount of Nonrecurring Charges should be eliminated from the charges to avoid double recovery of the same expense. Grant District provided cost justification information for the Nonrecurring Charges in response to Commission Staff's second request for information.<sup>18</sup> Grant District provided a cost justification sheet for "Service Connection After Business Hours," which provides after hours labor of \$37.50, office labor of \$25, and transportation expense of \$25,<sup>19</sup> in which Commission Staff removed only office labor costs. Grant District also provided a cost justification sheet for "Trip for Service Investigation After Working Hours," which provides after hours labor of \$75, office labor of \$25, and transportation expense of \$25,<sup>20</sup> in which Commission Staff removed only office labor costs. Commission Staff reviewed all cost justification information provided by Grant 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. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Pro Forma<sup>21</sup></u>	<u>Revised Charge</u>
Connection Charge	\$35.00	\$62.50	13.00
After Hours Connection Charge	95.00	87.50	63.00
Collection/Termination Call	35.00	62.50	13.00
Service Call/Investigation	35.00	100.00	25.00
After-Hours Service Investigation	75.00	125.00	100.00
Unauthorized Use Investigation	75.00	100.00	25.00
Returned Check Charge	35.00	45.60	21.00

<sup>18</sup> Grant District's Response to Staff's Second Request, (filed Mar. 2, 2023), Item 4, GCSSD\_PRSC2ND\_4\_1.pdf.

<sup>19</sup> Grant District's Response to Staff's Second Request, (filed Mar. 2, 2023), Item 4, GCSSD\_PRSC2ND\_4\_1.pdf.

<sup>20</sup> Grant District's Response to Staff's Second Request, (filed Mar. 2, 2023), Item 4, GCSSD\_PRSC2ND\_4\_1.pdf.

<sup>21</sup> Grant District's Response to Staff's Second Request, (filed Mar. 2, 2023), Item 4, GCSSD\_PRSC2ND\_4\_1.pdf.

Service Line Inspection	50.00	100.00	25.00
-------------------------	-------	--------	-------

PRO FORMA OPERATING STATEMENT

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



	<u>Test Year</u>	<u>Adjustment</u>	<u>(Ref.)</u>	<u>Pro Forma</u>
Operating Revenues				
Sewage Service Revenues				
Measured Revenues	\$ 783,076	(5,549)	(A)	\$ 777,527
Other Operating Revenues				
Forfeited Discounts	8,323			8,323
Miscellaneous Operating Revenues	14,747	(1,619)	(B)	13,128
Total Other Operating Revenues	23,070	(1,619)		21,451
Total Operating Revenues	806,146	(7,168)		\$ 798,978
<u>Operation Expenses</u>				
Supervision and Engineering				
Owner/Manager-Management Fee	176,030	17,134	(C)	
		(4,257)	(D)	188,907
Treatment System				
Sludge Hauling	21,450			21,450
Utility Service- Water Cost	1,172			1,172
Other- Labor, Materials, and Expenses	15,745			15,745
Rents	9,000			9,000
Fuel/ Power Purchased for Pumping and Treatment	79,512	-	(E)	79,512
Chemicals	18,863	-	(F)	18,863
Miscellaneous Supplies and Expenses				-
Pumping System	10,850			10,850
Treatment and Disposal	45,491			45,491
<u>Maintenance Expenses</u>				
Maintenance of Collection Sewer System	579			579
Maintenance of Pumping System	25,268			25,268
Maintenance of Other Plant and Facilities	6,910			6,910
<u>Customer Accounts Expenses</u>				
Customer Records and Collection Expenses				
Internal Labor, Materials and Expenses	14,569			14,569
Uncollectable Accounts	12,582			12,582
<u>Administrative and General Expenses</u>				
Administrative and General Salaries	5,900	100	(G)	6,000
Office Supplies and Other Expenses	10,406			10,406
Outside Services Employed	45,518			45,518
Insurance Expenses	15,439			15,439
Transportation Expenses	6,527			6,527
Miscellaneous General Expenses	440			440
<u>Total Operation and Maintenance Expenses</u>	522,251	12,977		535,228
Depreciation Expense	204,355	56,854	(H)	261,209
Amortization Expense	4,526			4,526
Taxes Other Than Income	2,085	8	(I)	2,093
Utility Operating Expenses	733,217	69,839		803,056
Utility Operating Income	72,929	(77,007)		(4,078)
Interest and Dividend Income	1,636	-		1,636
Income Available to Service Debt	\$ 74,565	\$ (77,007)		\$ (2,442)

(A) Measured Revenue. Grant District provided a billing analysis for the 12-month test year in its Application. Grant District's Summary of Billing Analysis included four adjustments to the 2021 PSC Annual Report amount to which Staff requested

additional details. The adjustments were listed as an Unbilled Revenue subtraction, an Unbilled Revenue addition, a Leak Adjustments subtraction and a Billing Errors subtraction.<sup>22</sup> Grant District provided information which indicated that the Unbilled Revenue subtraction<sup>23</sup> was prior year revenue that was billed and collected in the test year; the Unbilled Revenue addition<sup>24</sup> was from December 2021 revenue that was earned during the test year but billed in the next fiscal period. Grant District also provided additional detail concerning the \$20,933.63 for leak adjustments<sup>25</sup> and \$6,450.85 for billing errors.<sup>26</sup> Commission Staff reviewed the billing analysis data<sup>27</sup> provided by Grant District and discovered an error in the test year number of bills for the 5/8-Inch Meter. The billing analysis submitted with the application lists 7,920 bills<sup>28</sup> for the First 2,000 gallon tier of the 5/8-Inch Meter; however, the billing analysis data submitted as an Excel file lists 7,596 bills<sup>29</sup> in the First 2,000 gallon tier of the 5/8-Inch Meter for the test year, which calculates correctly based on the monthly billing details.<sup>30</sup> Commission Staff

---

<sup>22</sup> Application, Billing Analysis, Exhibit A.

<sup>23</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 15b, R\_PSCDR15b\_Adj1.xlsx.

<sup>24</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 15b, R\_PSCDR15b\_Adj2.xlsx.

<sup>25</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 15b, R\_PSCDR15b\_Adj3.xlsx.

<sup>26</sup> Grant District's Response to Staff's Second Request (filed Mar. 2, 2023), Item 2, GCSSD\_PSC2ND\_2.xlsx.

<sup>27</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 15a, R\_PSCDR15a.xlsx.

<sup>28</sup> Application, Billing Analysis, at unnumbered page 2 of 5.

<sup>29</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 15a, R\_PSCDR15a.xlsx; Tab, Test Yr 5 8", Cell B6.

<sup>30</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 15a, R\_PSCDR15a.xlsx; Tab, 5 8" Totals by Rate Code.

calculated a normalized revenue amount based on the statistics compiled in the table below, which includes the net billing decrease of \$27,384, equaling a normalized revenue amount of \$777,527.

Meter Size	Bills	Gallons Billed	Revenue
5/8 Inch	19,015	69,885,000	743,329
1 inch	195	2,832,000	23,282
1-1/2 inch	46	450,000	5,589
2 inch	177	2,842,000	32,711
Total	19,433	76,009,000	804,912
Less: Billing Adjustment			<u>(27,384)</u>
Normalized Revenues			\$777,527
Less: 2021 Test Year Rev.			<u>783,076</u>
Adjustment A			<u>(\$5,549)</u>

The adjustment to balance the Test Year Amount and the Normalized Revenue amount is a decrease to Sewage Service Revenues of \$5,549.

(B) Other Operating Revenues. In 2021, Grant District reported \$8,323 in Customers Forfeited Discounts and \$14,747 in Miscellaneous Operating Revenues.<sup>31</sup> Grant District provided detailed information about the test year Forfeited Discount revenue,<sup>32</sup> which Commission Staff reviewed and found to be accurate. Grant District provided detailed information about items totaling the test year amount of \$14,747 in Miscellaneous Operating Revenues.<sup>33</sup> Grant District provided additional detailed

<sup>31</sup> 2021 Annual Report at 25.

<sup>32</sup> Grant District's Response to Staff's Second Request, (filed Mar. 2, 2023), Item 3, GSCCD\_PSC2ND\_3.xlsx.

<sup>33</sup> Grant District's Response to Staff's Second Request, (filed Mar. 2, 2023), Item 1, GSCCD\_PSC2ND\_1\_(2).xlsx.

information about nonrecurring charges revenue,<sup>34</sup> and Commission Staff calculated an adjustment to Other Operating Revenue, removing Labor costs from nonrecurring charges as discussed earlier. The net adjustments to nonrecurring charges result in a decrease of \$1,619 to Miscellaneous Operating Revenues.

(C) Owner/Manager and Management Fee. In its application, Grant District proposed to increase the Owner/Manager Fee of \$176,030 for the test period by \$26,280.<sup>35</sup> This adjustment was the result of an amendment to the management contract Grant District has with Bullock Pen Water District (Bullock Pen District) in which Bullock Pen District runs Grant District in exchange for a management fee. The contracted amounts for the provided Field Services increased and for Office/Administrative Personnel combined rose from \$16,179 to \$16,847 per month.<sup>36</sup> This is a combined increase of \$668 per month. In addition, Grant District internally reclassified \$9,000 from the Owner/Manager fee to Rent Expense. Grant District's proposed adjustment was intended to annualize the new Management Fee. Grant District's test year Owner/Manager Fee is reported as \$185,030.<sup>37</sup> When Commission Staff calculated the Annual Owner/Manager Fee it calculated \$202,164 as shown below. Therefore, Commission Staff made an adjustment to increase the Owner/Manager and Management by \$17,134.

---

<sup>34</sup> Grant District's Response to Staff's First Request, (filed Feb. 2, 2023), Item 12.

<sup>35</sup> Application, Schedule of Adjusted Operations, Explanations of Pro Forma Adjustments, Adjustment A.

<sup>36</sup> Application, Schedule of Adjusted Operations, Explanations of Pro Forma Adjustments, Adjustment A.

<sup>37</sup> Grant District's Response to Staff's First Request, (filed Feb. 2, 2023), Item 1a, R\_PSCDR1a\_TB\_2021.xlsx, Account # 634- Contractual Service.

Monthly Management Fees	\$ 16,847
Multiplied by 12 months	<u>12</u>
Annual Management Fee	202,164
Less: Rent Reclassification	<u>(9,000)</u>
Adjusted	193,164
Less: Test Year Management Fee	<u>(176,030)</u>
Total Owner/Manager Fee Adjustment	<u>\$ 17,134</u>

(D) Employee Insurance Benefits. The management contract Grant District has with Bullock Pen District requires Bullock Pen District's employees to perform service and management duties for Grant District. Therefore, a portion of the contracted amount is the result of Bullock Pen District's Employee benefits being paid by Grant District. The Employer Contributions for employees performing work for Grant District was allocated based on the percentage of hours worked for Grant District compared to the hours worked on Bullock Pen District business, as shown below.<sup>38</sup>

---

<sup>38</sup> Grant District's Supplemental Response to Staff's First Request (filed Mar. 20, 2023), Item 1e.

Insurance Premiums					
Position	Waste Water		Health	Dental	Total
	Labor Percentage	Tier			
Water Plant Manager	0%	FAM	\$ -	\$ -	\$ -
Customer Service Rep	20%	EMP	214	5	219
Assistant Office Manager	100%	EMP	1,070	25	1,095
Superintendent	10%	ECH	198	6	204
Water Plant Operator	0%	FAM	-	-	-
Customer Service Rep	20%	FAM	610	18	628
Field Technician	0%	EMP	-	-	-
Water Distribution Operator	0%	EMP	-	-	-
Field Technician	30%	EMP	321	7	328
Office Manager	0%	FAM	-	-	-
Sewer Manager	100%	FAM	3,049	90	3,139
Field Technician	0%	EMP	-	-	-
Water Plant Operator	0%	EMP	-	-	-
Lead Customer Service Rep	20%	FAM	610	5	615
Distribution Supervisor	0%	FAM	-	-	-
Field Technician	0%	EMP	-	-	-
Average Allocated to Grant Sewer District	19%				
Total Allocated Premiums			<u>\$ 6,072</u>	<u>\$ 156</u>	<u>\$ 6,228</u>

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

Consistent with precedent,<sup>39</sup> in which the Commission has reduced benefit expenses for utilities that pay nearly 100 percent of an employee's health and dental insurance coverage, Commission Staff adjusted Grant District's single-coverage health

<sup>39</sup> 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.

insurance premiums by 22 percent,<sup>40</sup> family health insurance premiums by 33 percent,<sup>41</sup> and dental insurance premiums by 60 percent,<sup>42</sup> as shown in the calculation below. Bullock Pen District provided the most recent copy of its health and dental insurance invoices.<sup>43</sup> Commission Staff multiplied the reported test year medical insurance amount by the average allocation to Bullock Pen District calculated above to determine the test year premium of \$55,941.<sup>44</sup> Factoring in for the preceding, Commission Staff determined the net adjustment to Grant District's Owner/Management Fee expense should be decreased by \$4,257 as shown in the table below:

	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pre Forma Monthly Premium
Single Health Insurance	\$1,605	22%	\$(353)	\$1,252
Family Health Insurance	4,467	33%	(1,474)	2,993
Dental Insurance	156	60%	(94)	62
Total Pro Forma Monthly Premiums				4,307
Times: 12 Months				12
Total Annual Pro Forma Premiums				51,684
Less: Allocated Test year Insurance Premiums				(55,941)
Owner/Management Fee Adjustment				<u><u>\$(4,257)</u></u>

<sup>40</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2022, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>41</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2022, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>42</sup> Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Mar. 24, 2020). Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Mar. 5, 2021). Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

<sup>43</sup> Case No. 2022-00378, *Electronic Application of Bullock Pen Water District for an Alternative Rate Adjustment* (filed Feb 2, 2023), Bullock Pen District's Response to Staff's First Request, Item 7.

<sup>44</sup> Case No. 2022-00378, Bullock Pen District's Response to Staff's First Request (filed Feb. 2, 2023), Item 1e, R\_PSCDR1e.xlsx, Account #604.1 Medical Insurance \$298,350 x 19 percent = \$55,941 allocated test year medical insurance amount.

(E) Purchased Power. In its application, Grant District proposed an adjustment to increase Purchased Power Expense by \$14,824 to account for the projected increase in wholesale rates from its vendors.<sup>45</sup> Grant District totaled the first six months of invoices from 2022, then calculated the percent increase from the first six months of the test year and increased the second half of the test year by the calculated percentage. Commission Staff disagreed with Grant District's methodology. Pro forma adjustments in a historical test year must be known and measurable changes from the test year amount. The proposed adjustment is to account for an increase in costs subsequent to the test year; it neither considers volumetric differences or individual events that impacted either the test year or the proposed measurement period separately. Per Commission precedent "while such projections may be acceptable when an applicant bases its application upon a forecasted test period, they are not when the basis for the proposed rate adjustment is a historical test period."<sup>46</sup> Since Grant District filed an Alternative Rate Case (ARF), Commission regulation 807 KAR 5:076, Section 9 requires the usage of a historical test period. Therefore, Commission Staff does not recommend an adjustment to account for the increase in prices due to inflation and recommends the proposed adjustment by Grant District be denied.

(F) Chemical Expense. In its application, Grant District proposed an adjustment to increase Chemical Expense by \$2,958 to account for the projected increase

---

<sup>45</sup> Application, Schedule of Adjusted Operations, Explanations of Pro Forma Adjustments, Adjustment B, and Exhibit B.

<sup>46</sup> Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009), at 9–13.



in wholesale rates from its vendors.<sup>47</sup> Grant District totaled the first six months of invoices from 2022, then calculated the percent increase from the first six months of the test year and increased the second half of the test year by the increased percentage. Commission Staff disagreed with Grant District's methodology as discussed in adjustment (E), the Commission has historically denied this type of adjustment. Therefore, Commission Staff does not recommend an adjustment to account for the increase in prices due to inflation and recommends the proposed adjustment by Grant District be denied.

(G) Administrative and General Salaries – Director's Fees. In the test year Grant District reported Salaries and Wages – Officers of \$5,900<sup>48</sup> and \$451 for Payroll taxes.<sup>49</sup> Grant District did not propose an adjustment to commissioner compensation. Grant District provided the test-year Commissioners and Commissioner's Salaries.<sup>50</sup> Grant District pays commissioners on a monthly basis but was not able to provide documentation that authorized the payment structure or the amounts.<sup>51</sup> Grant District stated,

[H]owever, there was nothing in the official minutes of the court setting their compensation. I have gone back through the official court records and have not been able to find where the Fiscal Court ever set their compensation. It is my belief that the court intended to do that because it was noted in the minutes of the Sanitary Sewer District minutes of August 21, 2003 that they would do so in a later meeting, but it appears that it was forgotten and never acted upon by the Fiscal Court,

---

<sup>47</sup> Application, Schedule of Adjusted Operations, Explanations of Pro Forma Adjustments, Adjustment C, and Exhibit C.

<sup>48</sup> Application, Schedule of Adjusted Operations.

<sup>49</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 1a, R\_PSCDR1a\_TB\_2021.xlsx, Account # 408.12- Payroll Taxes.

<sup>50</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 1h.

<sup>51</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 1i.

Judge/Executive Darrell Link was present at that particular meeting and I'm certain that he could confirm that was the compensation agreed upon when the district was established.<sup>52</sup>

KRS 74.020(6) states that “[e]ach commissioner shall receive an annual salary of not more than thirty-six hundred dollars (\$3,600)...” and that

[A]ny such amount the salary shall be fixed by the county judges/executive with the approval of the fiscal court; in multicounty districts, it shall be fixed by the agreement between the county judges/executive with the approval of their fiscal courts. In fixing and approving the salary of the commissioners, the county judge/executive and the fiscal court shall take into consideration the financial condition of the district and its ability to meet its obligations as they mature.

Therefore, Commission Staff increased Administrative and General Salaries expense by \$100 and Taxes other than Income by \$8 in order to annualize the salaries and payroll taxes paid by Grant District for the board commissioners as shown below. Additionally, Commission Staff recommends that Grant District seek to have the salaries of its board of commissioners formally approved by the Grant County Fiscal Court and that such approval be reflected in the minutes of that body and kept in Grant District's official records.

---

<sup>52</sup> Grant District's Response to Staff's First Request (filed Feb. 2, 2023), Item 1i.

<u>Commissioners</u>	<u>Pro Forma Salaries</u>
Charles A. Givin	1,200
Dan Northcutt	1,200
Leo L. Saylor	1,200
Robert H. Worthington	1,200
Rodger W. Gingham	<u>1,200</u>
 Total	 \$ 6,000
Less: Test Year Payroll Taxes	<u>(5,900)</u>
 Total Revenue Requirement Adjustment	 <u>\$ 100</u>

(H) Depreciation Expense. In its application, Grant District proposed an adjustment to increase Depreciation Expense by \$10,215.<sup>53</sup> 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 outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Upon examination, Commission Staff calculated depreciation expense of \$261,209. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff increased Grant District's Depreciation Expense by \$56,854 to \$261,209 as shown below.

---

<sup>53</sup> Application, Schedule of Adjusted Operations, Explanations of Pro Forma Adjustments, Adjustment D, and Exhibit D.

Categories	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Equipment	Various	\$ 1,302	\$ 890	\$ 2,192
Furniture and Fixtures	7	197	-	197
Mains	30 - 75	63,934	35,811	99,745
Pump Stations	20 - 50	78,233	9,356	87,589
Sewer Plant Equipment	Various	20,728	4,432	25,160
Structures and Improvements	35 - 40	37,233	(3,057)	34,176
Transportation Equipment	7	2,728	9,422	12,150
Total		<u>\$ 204,355</u>	<u>\$ 56,854</u>	<u>\$ 261,209</u>

(l) Taxes Other Than Income - FICA. In the test year, Grant District reported \$451 for Payroll taxes.<sup>54</sup> However, as explained in adjustment (F) above, Commission Staff calculated pro forma Administrative and General Salaries – Director’s Fees of \$6,000. Therefore, Commission Staff calculated an increase to Taxes other than Income by \$8 as shown below.

<u>Taxes other than Income- FICA</u>	
Pro Forma Wage Adjustment	\$ 6,000
Times: 7.65 Percent FICA Rate	<u>7.65%</u>
Pro Forma Payroll Tax	459
Less: Test Year Payroll Taxes	<u>(451)</u>
FICA Adjustment	<u>\$ 8</u>

**OVERALL REVENUE REQUIREMENT AND  
REQUIRED REVENUE INCREASE**

The Commission has historically applied a Debt Service Coverage (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)

<sup>54</sup> Grant District’s Response to Staff’s First Request, (filed Feb. 2, 2023) Item 1a, R\_PSCDR1a\_TB\_2021.xlsx, Account # 408.12- Payroll Taxes.

recovery of depreciation expense, a non-cash item, to provide working capital;<sup>55</sup> (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

	Grant County Sanitary District	Commission Staff	
Pro Forma Operating Expenses	\$ 769,230	\$ 803,056	
Plus: Avg. Annual Principal and Interest Payments	121,209	80,706	(1)
Additional Working Capital	<u>12,121</u>	<u>16,141</u>	(2)
Total Revenues Requirement	902,560	899,904	
Less: Other Operating Revenue	(23,070)	(21,451)	
Interest Income	<u>(1,636)</u>	<u>(1,636)</u>	
Revenue Required From Wastewater Sales	877,854	876,817	
Revenue from Sales at Present Rates	<u>(783,076)</u>	<u>(777,527)</u>	
Required Revenue Increase	<u>\$ 94,778</u>	<u>\$ 99,290</u>	
Percentage Increase	<u>12.10%</u>	<u>12.77%</u>	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Grant District had two outstanding loans from the Kentucky Infrastructure Authority (KIA).<sup>56</sup> In addition, Grant District had one Lease from Truist,

<sup>55</sup> 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).

<sup>56</sup> Case No. 2012-00109, Amended Application of Grant County Sanitary Sewer District for Approval of Proposed Plan to Finance Improvements (Ky. PSC Jun. 12, 2012). Case No. 2013-00404, *Application of Grant County Sanitary Sewer District for a Certificate of Public Convenience and Necessity to Construct and Approval to Finance a Sanitary Sewer Extension Project* (Ky. PSC Jan 6, 2014).

which was formerly BB&T, and prior to that, Bank of Kentucky.<sup>57</sup> In its application, Grant District requested recovery of the average annual principal and interest on its indebtedness based on a three-year average of the annual principal, and interest and fee payments for the years 2022 through 2024.<sup>58</sup> However, because the statutory date for a final Order to be issued in this proceeding is October 13, 2023, the 2022 payments will be recovered through Grant 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 Grant District’s Annual Principal, Interest and Fees expense. Commission Staff calculated the average annual principal and interest on a five-year average for the years 2023 through 2027. As shown below, Commission Staff calculated an Average Interest and Fees of \$80,706.

2023-2027 Five-Year Average of Debt Payments

Year	A209-35		A12-01		Truist Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest		
2023	\$10,752	\$3,200	\$44,372	\$18,586	\$18,916	\$ 68	\$ 95,894	
2024	11,077	2,875	45,713	17,245	-	-	76,909	
2025	11,412	2,540	47,095	15,863	-	-	76,909	
2026	11,756	2,195	48,518	14,439	-	-	76,909	
2027	12,112	1,840	49,985	12,973	-	-	76,909	
Total								403,532
Divide by: 5 years								<u>5</u>
Average Annual Principal and Interest Payments								<u>\$ 80,706</u>

<sup>57</sup> Case No. 2012-00471, *Application of Grant County Sanitary Sewer District for Approval to Enter Into a Lease Agreement with the Bank of Kentucky, Inc. in a Principal Amount Not to Exceed \$1,100,000.00 for the Purpose of Refinancing Certain Outstanding Debt Obligations Between the Kentucky Rural Water Finance Corporation and The City Of Crittenden, Kentucky.* (Ky. PSC Jan. 4, 2013).

<sup>58</sup> Application, Revenue Requirements Calculation, Revenue Requirement Calculation - Debt Service Method, Average Annual Debt Service Calculation.

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, Grant District requested recovery of an allowance for working capital that is equal to 110 percent of its average annual debt payments for its loan payable to KIA at the time of its application.

Following the Commission's historic practice,<sup>59</sup> Commission Staff disagrees with Grant District's usage of 110 percent and proposes a 120 percent allowance for working capital. Therefore, as calculated below and shown in the table above, \$16,141 is included in the revenue requirement.

Average Annual Principal and Interest	\$ 80,706
Multiplied by: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	96,848
Less: Average Annual Principal and Interest Payments	<u>(80,706)</u>
Additional Working Capital	<u><u>\$ 16,141</u></u>

---

<sup>59</sup> Case No. 2021-00475, *Electronic Application Of Carroll County Water District #1 For An Adjustment Of Rates Pursuant To 807 KAR 5:076* (Jun. 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); 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 M. Foley

Prepared by: William 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. 2022-00377 DATED APR 26 2023

The following rates and charges are prescribed for the customers in the area served by Grant County Sanitary Sewer 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 Rates

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$26.14	Minimum Bill
Next	3,000 Gallons	0.01020	Per Gallon
Next	5,000 Gallons	0.00839	Per Gallon
Over	10,000 Gallons	0.00658	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$57.03	Minimum Bill
Next	5,000 Gallons	0.00839	Per Gallon
Over	10,000 Gallons	0.00658	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$99.10	Minimum Bill
Over	10,000 Gallons	0.00658	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$165.18	Minimum Bill
Over	20,000 Gallons	0.00658	Per Gallon

Nonrecurring Charges

Late Payment Charge	10%
Connection Charge	\$13.00
After Hours Connection Charge	\$63.00
Collection/Termination Call	\$13.00
Service Call/Investigation	\$25.00
After-Hours Service Investigation	\$100.00

Unauthorized Use Investigation	\$25.00
Returned Check Charge	\$21.00
Service Line Inspection	\$25.00

\*Brandon N. Voelker  
Gatlin Voelker PLLC  
50 E Rivercenter Blvd.  
Suite 1275  
Covington, KENTUCKY 41011

\*Grant County Sanitary Sewer District  
One Farrell Drive  
P. O. Box 460  
Crittenden, KY 41030

\*Nicole Tovey  
Legal Assistant  
Gatlin Voelker PLLC  
50 E Rivercenter Blvd.  
Suite 1275  
Covington, KENTUCKY 41011

\*Paul Harp  
Bullock Pen Water District  
One Farrell Drive  
P. O. Box 188  
Crittenden, KY 41030

\*Thomas R Nienaber  
Skees, Wilson & Nienaber, PLLC  
7699 Ewing Blvd.  
P.O. Box 756  
Florence, KENTUCKY 41024

\*Sandra Capple  
Legal Assistant  
Gatlin Voelker PLLC  
50 E Rivercenter Blvd.  
Suite 1275  
Covington, KENTUCKY 41011

\*Sebastian D. Torres  
Gatlin Voelker PLLC  
50 E Rivercenter Blvd.  
Suite 1275  
Covington, KENTUCKY 41011