

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

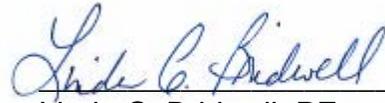
ELECTRONIC APPLICATION OF EDMONSON	)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE	)	2021-00013
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of April 22, 2021, the attached report containing the findings of Commission Staff (Staff) regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's April 22, 2021 Order, Edmonson County Water District (Edmonson District) is required to file comments regarding the findings of Staff no later than 14 days from the date of this report. Pursuant to the Commission's Orders in Case No. 2020-00085,<sup>1</sup> issued March 16, 2020, and March 24, 2020, Edmonson District SHALL NOT FILE the original paper copy at this time, but rather shall file original paper copies within 30 days of the lifting of the current state of emergency. Due to COVID-19, Staff is unable to physically sign this report. When Staff is able to sign this report, a notice of filing with the executed signature page will be made in this case docket.

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<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.



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P.O. Box 615  
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DATED JUN 01 2021

cc: Parties of Record

Case No. 2021-00013

STAFF REPORT  
ON  
EDMONSON COUNTY WATER DISTRICT  
CASE NO. 2021-00013

Edmonson County Water District (Edmonson District), a water district organized pursuant to KRS Chapter 74, provides water service to approximately 10,654 residential customers and one wholesale customer located in Butler, Edmonson, Grayson, Hart, and Warren counties, Kentucky.<sup>1</sup> Edmonson District's sewer division owns and operates sewage facilities in Edmonson County, Kentucky, that serve approximately 57 residential customers.<sup>2</sup>

On January 22, 2021, Edmonson District tendered its application to the Commission requesting to adjust Edmonson District's monthly water service rates pursuant to the procedures set forth in 807 KAR 5:076, and it was accepted as filed. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 29, 2021. On April 22, 2021, the Commission found that additional time would be needed to review Edmonson District's case amending its January 29, 2021 Order to allow for additional time for Commission Staff (Staff) to complete this report.

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<sup>1</sup> *Annual Report of Edmonson County Water District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2019* (2019 Water Division Annual Report) at 12 and 63.

<sup>2</sup> *Annual Report of Edmonson County Water District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2019* (2019 Sewer Division Annual Report) at 9 and 25.

To comply with the requirements of 807 KAR 5:076, Section 9, Edmonson District 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, 2019.

Using the Debt Service Coverage (DSC) method and its pro forma test-year operations, Edmonson District determined that it could justify a revenue increase of \$544,467, or 17.00 percent, as shown in the table below.<sup>3</sup> The rates requested by Edmonson District would increase the monthly bill of a typical residential customer using 3,000 gallons per month by \$3.72, from \$21.95 to \$25.67, or approximately 17.00 percent.<sup>4</sup>

Pro Forma Operating Expenses	\$ 3,084,950
Plus: Average Annual Debt Service	839,357
Debt Service Coverage Requirement	167,871
Amortization of Debt Discount	<u>(2,100)</u>
Overall Revenue Requirement	4,090,078
Less: Other Operating Revenue	(123,453)
Non-operating Income	(9,048)
Interest Income	(93,871)
Proposed Wholesale Revenue	<u>(112,750)</u>
Revenue Required from Water Sales	3,750,956
Less: Normalized Revenues from Water Sales	<u>(3,206,489)</u>
Required Revenue Increase/(Decrease)	<u>\$ 544,467</u>
Percentage Increase	<u>17.00%</u>

To determine the reasonableness of the rates requested by Edmonson District, Staff performed a limited financial review of Edmonson District's test-year operations. The scope of Staff's review was limited to determining whether operations reported for

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<sup>3</sup> Application, Attachment 5, Revenue Requirements.

<sup>4</sup> *Id.*, Attachment 1, Customer Notice.

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.

Staff's findings are summarized in this report. Mark Frost reviewed the calculation of Edmonson District's Overall Revenue Requirement. Jason Green reviewed Edmonson District's reported revenues, Cost of Service Study (COSS), 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, Staff found Edmonson District's Overall Revenue Requirement to be \$4,047,346. A revenue increase of \$529,959, or 15.97 percent, is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Edmonson District included with its application a COSS in order to allocate the expenses to customer classes in proportion with the cost of providing service to each class. The rates in the COSS were developed following the commodity demand methodology that is recognized in the Manual M-1 that is published by the American Water Works Association. Through this method, Edmonson District allocated the Overall Revenue Requirement to Edmonson District's customer classes in proportion to the cost of providing service to those customer classes. This method recognizes that a utility must meet peak demand requirements as well as the customer's average water use. Edmonson District also proposes to increase its current wholesale water service rate by approximately 0.32 percent and has provided a COSS

using the “inch-miles” method to allocate expenses to the wholesale customer. This method has been accepted by the Commission in past proceedings and is a reasonable method for allocating expenses to the wholesale customer in this case.<sup>5</sup>

Staff accepted Edmonson District’s proposed COSS but then made revisions based upon the adjustments made to the pro-forma expenses. Staff’s calculations and resulting rates are shown in Appendix B. The rates set forth in Appendix A to this report are based upon the revenue requirement as calculated by Staff and will produce sufficient revenues from water sales to recover the \$3,848,839 Revenue Requirement from water rates determined by Staff, an approximate 15.97 percent increase.<sup>6</sup> These rates will increase the monthly bill of a retail customer who uses 3,000 gallons of water per month from \$21.95 to \$25.61, an increase of \$3.66, or 16.67 percent.

#### PRO FORMA OPERATING STATEMENT

Edmonson District’s Pro Forma Operating Statement for the test year ended December 31, 2019, as determined by Staff, appears below.

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<sup>5</sup> See Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Nov. 20, 2019), Staff Report at 4.

<sup>6</sup> Revenue Requirement less Other Operating Revenue, Interest Income, Nonutility Income, and Wholesale Revenue.

	Test Year Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Total Metered Sales	\$ 2,936,011	\$ 270,478	A.	\$ 3,206,489
Sales for Resale	103,879	8,512	A.	112,391
Total Revenue - Water Sales	3,039,890	278,990		3,318,880
Other Water Revenues:				
Forfeited Discounts	57,807			57,807
Misc. Service Revenues	65,646	(27,865)	B.	37,781
Total Operating Revenues	3,163,343	251,125		3,414,468
Operating Expenses:				
Operation and Maintenance:				
Employee Salaries and Wages	915,724	(18,000)	C.	
		50,695	D.	948,419
Commissioner Salaries and Wages		18,000	C.	18,000
Employee Pensions and Benefits	256,866	(26,168)	E.	
		7,213	F.	
		(23,004)	G.	214,907
Purchased Power	237,010	(24,552)	H.	212,458
Chemicals	60,353	(6,252)	H.	54,101
Materials and Supplies	139,177			139,177
Contractual Services	155,463			155,463
Transportation Expenses	56,397			56,397
Insurance	64,945			64,945
Advertising	2,834			2,834
Bad Debt Expense	10,213			10,213
Miscellaneous Expenses	38,107			38,107
Total Operation and Mnt. Expenses	1,937,089	(22,068)		1,915,021
Depreciation Expense	892,174	162,469	I.	1,054,643
Taxes Other Than Income	78,649	(6,095)	J.	72,554
Total Operating Expenses	2,907,912	156,374		3,042,218
Net Utility Operating Income	255,431	94,751		372,250
Interest Income	93,871			93,871
Nonutility Income and Expenses	54,761	(45,713)	K.	9,048
Net Available for Debt Service	\$ 404,063	\$ 49,038		\$ 475,169

(A) Billing Analysis Adjustment. Edmonson District provided a billing analysis showing the gallons of water billed to retail and wholesale customers during the test year, and made an adjustment in test period revenues. Applying the water service rates that were in effect during the test year to the water sales shown in the billing analysis, Staff

determined that Edmonson District's adjustment is appropriate, and test-year revenues from retail customers was increased by \$270,478 and by \$8,512 from sales for resale.

(B) Miscellaneous Service Revenues. Following the Commission's recent decisions, Staff has reviewed Edmonson District'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. Staff has reviewed the most recent cost justification information provided in Edmonson District's 2019 tariff filing, and has adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Such adjustments result in the following Nonrecurring Charges:

Nonrecurring Charge	Normal Hours
Reconnection Charge	\$ 10.00
Meter Test Charge	10.00
Returned Check Charge	0.00
Returned Bank Draft Charge	0.00
Service Call Investigation	5.00

In Edmonson District's 2019 tariff filing, the cost justification information for both the Returned Check Charge and Returned Bank Draft Charge only included costs for labor in the amount of \$25.06. Since no other costs were indicated in the cost justification worksheets, these charges have both been reduced to zero.

The adjustments to the Nonrecurring Charges results in a decrease to the charges and a decrease in miscellaneous service revenues of \$27,865 as shown below.

	Revised NRC's	Number	Pro Forma Other Rev	Tariffed NRC's	Test-Year Other Rev	Pro Forma Adjustment
Reconnection Charge	\$ 10.00	636	6,360	\$ 50.00	31,800	\$ (25,440)
Meter Test Charge	\$ 10.00	0	0	\$ 65.00	0	0
Returned Check Charge	\$ -	97	0	\$ 25.00	2,425	(2,425)
Returned Bank Draft Charge	\$ -		0	\$ 25.00	0	0
Service Call Investigation	\$ 5.00	0	0		0	0
Pro Forma Adjustment						<u>\$ (27,865)</u>

(C) Commissioner Salaries and Wages. Edmonson District reported a test-period Employee Salaries and Wages expense of \$915,724.<sup>7</sup> Edmonson District discovered that it had incorrectly recorded the payment of the commissioner fees of \$18,000 in its Employee Salaries and Wages expense account.<sup>8</sup> Edmonson District corrected its error by moving the misclassified commissioner fees to the correct account.<sup>9</sup> Upon its review of the 2019 General Ledger, Staff determined that Edmonson District did incorrectly record its commissioner fees in the wrong expense account. Accordingly, Staff accepts Edmonson District's proposed adjustment.

(D) Employee Salaries and Wages. Edmonson District proposed to increase its corrected test-year Employee Salaries and Wages expense of \$897,724<sup>10</sup> by \$77,109 for a pro forma Employee Salaries and Wages expense of \$974,833.<sup>11</sup> In 2020, Edmonson District hired three new employees to fill vacant positions<sup>12</sup> and in 2021 gave

<sup>7</sup> 2019 Water Division Annual Report at 64.

<sup>8</sup> Application, Attachment 5, Schedule of Adjusted Operations Ref. B and References, Ref. B.

<sup>9</sup> *Id.*, References, Ref. B.

<sup>10</sup> \$915,724 (Reported test-year Employee Salaries and Wages Expense) - \$18,000 (Misclassified Commissioner Salaries and Wages) = \$897,724 (Corrected Employee Salaries and Wages expense).

<sup>11</sup> Application, Attachment 5, Schedule of Adjusted Operations Ref. C. \$897,724 (Corrected Employee Salaries and Wages expense) + \$77,109 (Proposed Pro forma Adjustment) = \$974,833.

<sup>12</sup> *Id.*

its employees wage increases that ranged from 2 percent to 13 percent for an overall average wage increase of 8.5 percent.<sup>13</sup> The proposed \$77,109 adjustment to Employee Salaries and Wages expense was calculated using the 2021 hourly wage rates and the current staff level of 24 employees.<sup>14</sup>

Edmonson District explains that in the last four years it lost employees to other careers and to other districts due to the lack of competitive wages.<sup>15</sup> When Edmonson District has attempted to fill its vacant positions there have been only one or two applicants, which, according to Edmonson District, makes it almost impossible to hire competent employees that are capable of performing the duties Edmonson District requires.<sup>16</sup> Edmonson District used the Kentucky Rural Water Association (KRWA) Compensation Survey of similarly sized water utilities to develop a competitive pay scale in an attempt to retain its remaining experienced employees.<sup>17</sup>

In reviewing Edmonson District's employee schedules Staff determined that during the 5-year period from 2016 through 2020, Edmonson District did lose 19 employees due to either retirements or resignations. The documented loss of employees validates Edmonson District's argument regarding its inability to retain a competent and trained staff. Edmonson District's wage comparison using the similarly situated water utilities in

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<sup>13</sup> *Id.*, References C.

<sup>14</sup> Response of Edmonson District to the Commission Staff's Initial Request (Response to Staff's First Request) (filed Mar. 4, 2021) Item 7, Excel Spreadsheet: Item\_7\_Pro\_Forma\_Adjustments; Tab: Wages.

<sup>15</sup> Response of Edmonson District to the Commission Staff's Second Request for Information (Response to Staff's Second Request) (filed Apr. 2, 2021), Item 9.b(2).

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

the KRWA Analysis confirms that its pay rates were non-competitive and supports the level of wage increases Edmonson District gave to its employees in 2021. Further, an adjustment to reflect the 2021 wage rates would meet the ratemaking criteria of being known and measurable.<sup>18</sup>

Using Edmonson District's current staff level of 24 full-time employees, the hours that each employee worked in the test year,<sup>19</sup> and the 2021 employee wage rates, Staff calculates a pro forma employee Salaries and Wages expense of \$948,419, which is \$50,695, above the corrected expense level of \$897,724. Staff's calculation of its pro forma Employee Salaries and Wages expense is contained in Appendix B.

(E) Employee Insurance Benefits. Edmonson District reported paying test-year employee insurance premiums of \$134,795.<sup>20</sup> Currently, Edmonson District pays 100 percent of the health and dental insurance premiums for its employees.<sup>21</sup> The Commission is placing greater emphasis on evaluating employees' total compensation

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<sup>18</sup> 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).

<sup>19</sup> Employee regular hours worked in the test-year is limited to 2,080 hours. The three employees hired in 2020 are assumed to work 2,080 annual regular hours.

<sup>20</sup> Response to Staff's First Request, Item 11a, 11b, 11c, and 11d, \$123,841 (Employee Health Insurance, Excel Spreadsheet: Item\_11A\_Employee\_Health\_Ins, Tab: 2019) + \$5,459 (Employee Dental Insurance, Excel Spreadsheet: Item\_11B\_Employee\_Dental, Tab: 2019) + \$1,573 (Employee Vision Insurance, Excel Spreadsheet: Item\_11C\_Vision\_Benefits, Tab: 2019) + \$3,922 (Employee Life Insurance, Excel Spreadsheet: Item\_11D\_Life\_Insurance, Tab: 2019) = \$134,795.

<sup>21</sup> Application, Attachment 5, References, Ref. D.

packages, including both salary and benefit programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. In most cases, the Commission has found that 100 percent employer-funded health and dental care does not meet those criteria.<sup>22</sup>

By applying the Bureau of Labor Statistics' national average for an employee's share of health insurance premiums to the premiums paid in 2020, Edmonson District calculated a decrease to its 2019 employee benefit expense of \$23,843,<sup>23</sup> as calculated in the following table.

		Allowable Employee Health Insurance Premiums	
		Monthly	Annual
2020 Employee Health Insurance Premium	\$ 11,290		
Percentage allowed by the Commission	79%		
Allowable 2020 Premium		\$ 8,919	\$ 107,031
Less: Employee Health Ins. Expense 2019			130,874
Health Insurance Adjustment			<u>\$ (23,843)</u>

Staff is reducing Edmonson District's test-year Employee Pension and Benefit expense by \$26,168 as calculated in the table below. The pro forma Employee Insurance expense of \$108,627 reflects the Edmonson District's current staff of 24 full-time employees and the 2019 individual employee insurance premiums. Staff's adjustment is

<sup>22</sup> See, e.g., Case No. 2016-00434, *Application of Shelby Energy Cooperative, Inc. for an Increase in its Retail Rates* (Ky. PSC July 1, 2017) final Order at 6–7; Case No. 2016-00367, *Application of Nolin Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC June 21, 2017), final Order at 10–11; Case No. 2016-00365, *Application of Farmers Rural Electric Cooperative Corporation for an Increase in Retail Rates* (Ky. PSC May 12, 2017), final Order at 6–7; Case No 2016-00174, *Electronic Application of Licking Valley Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017), final Order at 18; Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018), final Order at 19.

<sup>23</sup> Response to Staff's First Request, Item7, Excel Spreadsheet: Item\_\_7\_Pro\_forma\_Adjustments; Tab: Adj.

based on the national average employee contributions rates of 21 percent for individual health insurance<sup>24</sup> and 60 percent for dental insurance.<sup>25</sup>

Type of Premium	Pro Forma Employee Ins. Exp.	Avg. Emp. Contribution Rate	Premium Adjustment	Adjusted Employee Ins. Exp.	Test-Year Employee Ins. Exp.	Pro Forma Adjustment
Health Insurance	\$ 128,328	21%	\$ (26,949)	\$ 101,379	\$ 123,841	\$ (22,462)
Dental Insurance	5,544	60%	(3,326)	2,218	5,459	(3,241)
Vision Insurance	1,608			1,608	1,573	35
Life Insurance	3,422			3,422	3,922	(500)
	<u>\$ 138,902</u>			<u>\$ 108,627</u>	<u>\$ 134,795</u>	<u>\$ (26,168)</u>

(F) Retirement. Edmonson District reported a test-year employee retirement expense of \$63,705.<sup>26</sup> Edmonson District maintains two separate employee retirement plans: a 401(k) plan and a 401(a) plan. Edmonson District's 401(k) plan is funded by its employees who can voluntarily contribute up to 20 percent of their salaries.<sup>27</sup> The 401(a) plan is funded by Edmonson District with contributions of 8 percent of each employee's regular wages.<sup>28</sup>

According to Edmonson District, the increase to employee wages results in a corresponding adjustment of \$5,464 to its 401(a) plan expense.<sup>29</sup> Using the pro forma

<sup>24</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2019, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2019/ownership/private/table10a.pdf>); see also Bureau of Labor Statistics, Healthcare Benefits, March 2018, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2018/ownership/private/table10a.pdf>) (showing the same percentage contribution rate in 2018).

<sup>25</sup> The Willis Benchmarking Survey, 2015, at 62–63. ([https://www.willis.com/Documents/publications/Services/Employee\\_Benefits/20151230\\_2015WillisBenefitsBenchmarkingSurveyReport.pdf](https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf)).

<sup>26</sup> Response to Staff's First Request, Item 11.f. Excel Spreadsheet: Item\_\_11F\_Employer\_401A\_Contrib.

<sup>27</sup> *Id.*, Excel Spreadsheet: Item\_\_11F\_Empl\_401K\_Contributions.

<sup>28</sup> *Id.*, Excel Spreadsheet: Item\_\_11F\_Employer\_401A\_Contrib.xlsx.

<sup>29</sup>  $\$833,474$  (2019 Wages)  $\div$   $\$905,698$  (2021 Pro Forma Wages) = 8.67%  $\times$   $\$63,060$  (Test-Year Benefit) =  $\$5,464$ .

employee salaries and wages expense for full-time employees of \$886,480 and an 8 percent employer 401(a) contribution rate, Staff calculates a pro forma employee retirement expense of \$70,918.<sup>30</sup> Accordingly, the employee pension and benefit expense is being increased by \$7,213.<sup>31</sup>

(G) Employee Health Insurance Trust Fund. Edmonson District provides its employees a retiree health insurance benefit that is totally funded by the District.<sup>32</sup> Edmonson District created the Retiree Health Account Trust (Grantor Trust) in March of 2005, with the first employee withdrawal from the account occurring in June of 2007.<sup>33</sup> Each year Edmonson District creates a “funding report” listing all employees as well as their years of service.<sup>34</sup> Using the funding report, Edmonson District calculates the balance required to be in the Grantor Trust by multiplying the years of service for each current employee by \$1,296 and adding that to the remaining balance to be paid out to the retired employees.<sup>35</sup> Edmonson District compares the required Grantor Trust balance to the actual balance in the account to determine if a contribution to the fund is required.<sup>36</sup>

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<sup>30</sup> \$886,480 (Pro Forma Employee Salaries - Regular Hours) x 8% (Employer Contribution Rate) = \$70,918.

<sup>31</sup> \$70,918 (Pro Forma 401(a) Employer Contribution) - \$63,705 (Test-Year 401(a) Employer Contribution) = \$7,213.

<sup>32</sup> Application, Attachment 5, References, Ref. E.

<sup>33</sup> Response to Staff's First Request, Item 17.a.

<sup>34</sup> Response to Staff's Second Request, Item 6.d.

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

Each retiree is eligible to receive up to \$32,400 after they have been employed for 25 years with Edmonson District and are 55 years of age or older.<sup>37</sup>

In the test-year, Edmonson District incorrectly expensed a \$31,568 employee benefit payment paid by the Grantor Trust even though no contributions to the trust were required in 2019.<sup>38</sup> To correct its error, Edmonson District reduced its Employee Pension Benefit expense by \$31,568, but also increased the expense by \$12,312 to reflect contributions that it will make to the Grantor Trust in 2020.<sup>39</sup> Edmonson District's net adjustment to its Employee Pension and Benefits expense for its retiree health insurance benefit is a deduction of \$19,256.<sup>40</sup>

The following table is a ten-year comparison of the deposits, interest earned, withdrawals, and annual balances of Edmonson District's Grantor Trust Fund.

Year	Grantor Trust Fund			
	Deposits	Interest	Withdrawals	Balance
2011	0	6,380	3,453	320,481
2012	12,312	1,776	3,850	330,719
2013	18,792	1,681	4,285	346,907
2014	19,440	1,779	4,417	363,710
2015	9,072	2,751	4,022	371,510
2016	13,716	1,920	1,900	385,247
2017	0	2,228	7,186	380,289
2018	0	3,414	17,350	365,503
2019	0	5,658	17,276	353,025
2020	12,312	5,356	16,804	353,889

Edmonson District's deposits into the Grantor Trust fund have fluctuated greatly over the ten-year period from 2011 to 2020, with no deposits being required in four of the

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<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

years (2011, 2017, 2018, and 2019) and with the highest deposit being made in 2014 of \$19,440. In instances when there is a great degree of fluctuation in an expense account between years, such as with the Grantor Trust Fund, the Commission has determined that it is unreasonable to establish an ongoing expense level for ratemaking purposes based on the activity of a single year.<sup>41</sup> Staff finds that a ten-year average of the highs and lows of the deposits will produce a more stable and reliable estimate of Edmonson District's ongoing or future deposit requirements. Edmonson District's average deposits into the Grantor Trust for the ten-year period from calendar years 2011 through 2020 is \$8,564.<sup>42</sup>

Accordingly, Staff reduced Employee Pension and Benefit expense by \$23,004<sup>43</sup> to eliminate the error in recording the Grantor Trust employee payment as an expense and to reflect the ten-year average of Edmonson District's deposits into the Grantor Trust.

(H) Excess Water Loss. Commission regulation 807 KAR 5:066, Section 6(3),<sup>44</sup> limits water loss to 15 percent, for ratemaking purposes unless the Commission finds an alternative level reasonable. Edmonson District reported a test-year water loss of

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<sup>41</sup> See Case No. 2007-00354, *Application of Apache Gas Transmission Company, Inc. for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2007) at 3.

<sup>42</sup> \$85,644 (Ten Year Total of Grantor Trust Deposits) ÷ 10 (years) = \$8,564.

<sup>43</sup> \$31,568 (Error Correction) + \$8,564 (10-Year Average Grantor Trust Deposits) = \$23,004.

<sup>44</sup> "Unaccounted-for water loss. Except for purchased water rate adjustments for water districts and water associations, and rate adjustments pursuant to KRS 278.023(4), for ratemaking purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water used by a utility in its own operations. Upon application by a utility in a rate case filing or by separate filing, or upon motion by the commission, an alternative level of reasonable unaccounted-for water loss may be established by the commission. A utility proposing an alternative level shall have the burden of demonstrating that the alternative level is more reasonable than the level prescribed in this section."

25.36 percent, or 10.36 percentage points above the 15 percent allowable limit.<sup>45</sup> To eliminate the cost to produce and pump water over the 15 percent allowable limit, Edmonson District proposes to decrease purchased power expense and chemical expense by \$24,552 and \$6,252 respectively.<sup>46</sup> Staff finds that Edmonson District's proposal to eliminate the costs associated with excessive water loss conforms to the Commission's current practice and, therefore, is accepting Edmonson District's adjustments to purchased power expense and chemical expense.

(l) Depreciation. In its application, Edmonson District proposes to increase its test-year depreciation expense of \$892,174 by \$162,469.<sup>47</sup> Edmonson District explains that the Commission typically requires a water utility to adjust its depreciation expense when its depreciation lives fall outside of the ranges recommended in the NARUC Study.<sup>48</sup> According to Edmonson District, its adjustment brings the depreciable lives of its assets to or near the midpoint of NARUC's recommended ranges.<sup>49</sup> In 2020, Edmonson District installed new Automated Meter Reading replacement meters at a cost of \$324,824 and completed the Edmonson/Hart Water Line Project at a cost of \$1,290,000.<sup>50</sup> Edmonson District included a full-year of depreciation for these two large asset additions in its calculation of pro forma depreciation expense.<sup>51</sup>

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<sup>45</sup> 2019 Water Division Annual Report at 72.

<sup>46</sup> Application, Attachment 5, Schedule of Adjusted Operations Ref. F and References, Ref. F.

<sup>47</sup> Application, Attachment 5, Schedule of Adjusted Operations Ref. G.

<sup>48</sup> *Id.*

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the 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 Edmonson District's depreciation schedule, Staff determined that Edmonson District's adjusted depreciation lives are at the midpoint of the NARUC Study range for each asset category. Staff finds Edmonson District's depreciation adjustment to be reasonable and has increased Depreciation expense by \$162,469.

(J) Payroll Tax. Edmonson District reported a test-year payroll tax expense of \$78,649. Using the pro forma Employee Salaries and Wages expense of \$948,914 and the current FICA rate of 7.65 percent, Staff calculated a pro forma FICA expense of \$72,554.<sup>52</sup> Accordingly, Staff is decreasing Edmonson District's payroll tax expense by \$6,095.<sup>53</sup>

(K) Nonutility Income. Edmonson District reported a test-period level of Nonutility Income of \$54,761.<sup>54</sup> Edmonson District proposed to reduce Nonutility Income by \$45,713 to remove a prior period adjustment pertaining to the retiree health insurance Grantor trust account.<sup>55</sup> Given that this is for a prior period, Staff finds that Edmonson District's adjustment is correct and has reduced Nonutility Income by \$45,713.

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<sup>52</sup> \$948,914 (Pro Forma Employee Salaries and Wages expense) x 7.65% (FICA Rate) = \$72,554.

<sup>53</sup> \$72,554 (Pro Forma Payroll Tax) - \$78,649 (Reported Test-Year Payroll Tax) = \$6,095.

<sup>54</sup> Application, Attachment 5, Revenue Requirements.

<sup>55</sup> *Id.*, References, Ref. J.

## REVENUE REQUIREMENT

The Commission has historically applied a DSC method to calculate the revenue requirement of water districts and water associations.<sup>56</sup> This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of 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 Edmonson District's and Staff's calculations of the revenue requirement and required revenue increase using the DSC method is shown below:

	Edmonson District	Staff
Pro Forma Operating Expenses	\$ 3,084,950	\$ 3,042,218
Plus: Average Annual Debt Service	839,357	839,357
Debt Service Coverage Requirement	167,871	167,871
Amortization of Debt Discount	(2,100)	(2,100)
Overall Revenue Requirement	4,090,078	4,047,346
Less: Other Operating Revenue	(123,453)	(95,588)
Non-operating Income	(9,048)	(9,048)
Interest Income	(93,871)	(93,871)
Revenue Required from Water Sales	3,863,706	3,848,839
Less: Normalized Revenues from Water Sales	(3,319,239)	(3,318,880)
Required Revenue Increase/(Decrease)	\$ 544,467	\$ 529,959
Percentage Increase	16.40%	15.97%

Average Annual Principal and Interest Payments. In calculating its revenue requirement, Edmonson District used an average annual debt service of \$839,357 and a

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<sup>56</sup> 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).

0.2 DSC of \$167,871.<sup>57</sup> Upon its review of Edmonson District's bond and loan amortization schedules, Staff determined that the average annual debt service and DSC coverage calculated by Edmonson District are correct and, therefore, Staff is using those in its calculation of the revenue requirement.

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<sup>57</sup> Application, Attachment 5, Table B, Debt Service Schedule.

Signatures:

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

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Prepared by: Jason Green  
Rate Design Branch  
Division of Financial Analysis

APPENDIX A

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00013 DATED JUN 01 2021

Monthly Water Rates

All Meter Sizes

First 1,500 gallons  
All Over 1,500 gallons

\$ 16.40 Minimum bill  
0.00614 per gallon

Wholesale Water Rate

\$0.00310 per gallon

Nonrecurring Charges

Meter Test Charge	\$10.00
Service Call/Investigation	\$ 5.00
Returned Check Charge	\$ 0.00
Returned Bank Draft Charge	\$ 0.00
Reconnection Fee	\$10.00

## APPENDIX B

### APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00013 DATED JUN 01 2021

Emp. No.	Job Description	2019 Regular Work Hours				2019 Overtime Hours			2021 Hourly Wage Rates	2021 Pro Forma Salaries & Wages expense		
		Totals	Capital Hours		Allocated Sewer	Expensed	Allocated			Regular	Overtime	Salaries
			Meters	Services			Sewer	Expensed				
#0008	Treatment Plant Operator/Supervisor	2,080.00				2,080.00	253.06	253.06	\$ 24.66	\$ 51,293	\$ 9,361	\$ 60,654
#0013	Manager	2,080.00				2,080.00	0.00	0.00	\$ 32.02	66,602	0	66,602
#0017	Office Manager	2,064.21				2,064.21	93.46	93.46	\$ 24.66	50,903	3,457	54,360
#0043	Inventory Clerk	1,794.12				1,794.12	5.50	5.50	\$ 19.70	35,344	163	35,507
#0049	Certified Distribution Line Operator/ Supervisor	2,076.00				2,076.00	106.57	106.57	\$ 24.11	50,052	3,854	53,906
#0052	Certified Distribution Line Operator/Meter Tester	2,059.47				2,059.47	105.00	105.00	\$ 22.25	45,823	3,504	49,327
#0061	Certified Treatment Plant Operator	1,724.82				1,724.82	81.60	81.60	\$ 22.28	38,429	2,727	41,156
#0064	Certified Treatment Plant Operator	2,051.90				2,051.90	210.44	210.44	\$ 19.15	39,294	6,045	45,339
#0065	Certified Distribution Line Operator/ Equipment Operator	2,080.00	91.75	433.68	7.00	1,547.57	121.83	121.83	\$ 19.94	30,859	3,644	34,503
#0066	Billing Clerk	1,929.32				1,929.32	1.73	1.73	\$ 17.02	32,837	44	32,881
#0067	Certified Distribution Line Operator/Equipment Operator	2,076.00	5.50	20.50	6.00	2,044.00	234.27	234.27	\$ 19.62	40,103	6,895	46,998
#0070	Certified Distribution Line Operator/Treatment Plant Operator	2,069.00	1.00	13.00	1.00	2,054.00	47.37	47.37	\$ 18.85	38,718	1,339	40,057
#0071	Equipment Operator/Laborer	2,078.00	93.50	455.53	2.50	1,526.47	126.49	2.00 124.49	\$ 16.78	25,614	3,133	28,747
#0073	Certified Treatment Plant Operator	2,071.63				2,071.63	215.37	215.37	\$ 17.36	35,963	5,608	41,571
#0074	Accounts Recievable Clerk	2,075.50				2,075.50	0.00	0.00	\$ 15.43	32,025	0	32,025
#0075	Accounts Recievable Clerk	2,042.26				2,042.26	23.54	23.54	\$ 16.02	32,717	566	33,283
#0079	Bookkeeper	1,737.43				1,737.43	2.44	2.44	\$ 17.36	30,162	64	30,226
#0081	Laborer	2,076.93	0.50	1.50		2,074.93	256.55	256.55	\$ 15.76	32,701	6,065	38,766
#0082	Laborer	2,076.00	2.50	6.00	4.00	2,063.50	102.57	4.00 98.57	\$ 15.76	32,521	2,330	34,851
#0083	Laborer	2,079.92	3.00	20.00		2,056.92	45.45	45.45	\$ 15.76	32,417	1,074	33,491
#0086	Laborer	1,402.80	0.50	2.50	3.00	1,396.80	92.49	3.00 89.49	\$ 15.39	21,497	2,066	23,563
#0088	Treatment Plant Trainee	2,080.00				2,080.00	0.00	0.00	\$ 15.02	31,242	0	31,242
#0089	Accounts Recievable Clerk	2,080.00				2,080.00	0.00	0.00	\$ 14.02	29,162	0	29,162
#0090	Treatment Plant Trainee	2,080.00				2,080.00	0.00	0.00	\$ 14.52	30,202	0	30,202
										<u>\$ 886,480</u>	<u>\$ 61,939</u>	<u>\$ 948,419</u>

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