

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WEST SHELBY )	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT )	2021-00241
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 August 10, 2021, 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 August 10, 2021 Order, West Shelby Water District (West Shelby 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 West Shelby 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     JAN 06 2022    

cc: Parties of Record

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<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).

STAFF REPORT  
ON  
WEST SHELBY WATER DISTRICT  
CASE NO. 2021-00241

West Shelby Water District (West Shelby District), a water district organized pursuant to KRS Chapter 74, provides water service to approximately 2,335 residential, commercial, and industrial customers in Shelby County, Kentucky.<sup>2</sup> In the final Order for case 2020-00184, West Shelby District was ordered to file an application by June 15, 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.<sup>3</sup> On August 2, 2021, West Shelby District tendered its application to the Commission requesting to adjust its water rates pursuant to 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 August 10, 2021.

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. The Commission Staff notes that West Shelby District reported a

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<sup>2</sup> *Annual Report of West Shelby Water District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

<sup>3</sup> See Case No. 2020-00184, *Electronic Purchased Water Adjustment Filing of West Shelby Water District* (Ky. PSC June 15, 2020).

water loss of 9.43 percent in its 2020 Annual Report.<sup>4</sup> At a 9.43 percent water loss, the annual cost to West Shelby District is \$72,241.<sup>5</sup>

To comply with the requirements of 807 KAR 5:076, Section 9, West Shelby 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, 2020.

Using the Debt Service Coverage (DSC) method and its pro forma test-year operations, West Shelby District determined that its water division could justify a revenue increase of \$218,838, or 13.65 percent, as shown in the table below.<sup>6</sup> The rates requested by West Shelby District would increase the monthly bill of a typical residential customer using 5,200 gallons per month by \$4.58, from \$33.51 to \$38.09, or approximately 13.68 percent.<sup>7</sup>

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<sup>4</sup> 2020 Annual Report at 57 and 58.

<sup>5</sup>

	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Total</u>
Allowable Purchases	\$ 758,809	\$ 28,476	\$ 787,285
Multiplied by: Water Rate per 1,000 Gallons	<u>-9.43%</u>	<u>-9.43%</u>	<u>-9.43%</u>
Pro Forma Purchased Water Expense	<u>\$ (71,556)</u>	<u>\$ (2,685)</u>	<u>\$ (74,241)</u>

<sup>6</sup> Application, Attachment 5, Revenue Requirement Calculation – Debt Service Method.

<sup>7</sup> *Id.*, Attachment 1, Customer Notice.

Pro Forma Operating Expenses	\$ 1,749,850
Plus: Average Annual Debt Service	88,108
Debt Service Coverage Requirement	<u>17,622</u>
Overall Revenue Requirement	1,855,580
Less: Other Operating Revenue	(16,531)
Non-operating Income	
Interest Income	
Proposed Wholesale Revenue	<u>(16,711)</u>
Revenue Required from Water Sales	1,822,338
Less: Normalized Revenues from Water Sales	<u>(1,603,500)</u>
Required Revenue Increase/(Decrease)	<u>\$ 218,838</u>
Percentage Increase	<u>13.65%</u>

To determine the reasonableness of the rates requested by West Shelby District, Commission Staff performed a limited financial review of West Shelby 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 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 the calculation of West Shelby District's Overall Revenue Requirement. Jason Green reviewed West Shelby District's reported revenues and rate design.

#### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service method, as generally accepted by the Commission, Commission Staff found that West Shelby District's required revenue from rates is

\$1,761,097. To meet the Overall Revenue Requirement, West Shelby District requires a \$155,549 or 9.69 percent revenue increase to Pro Forma present rate revenues.

2. Monthly Water Service Rates. West Shelby District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 13.65 percent. West Shelby District has not performed a cost of service study (COSS). In response to Staff's First Request for Information (Staff's First Request), West Shelby District stated that it did not complete a COSS at this time as there has not been any material change in the water system to warrant a COSS.<sup>8</sup>

The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by West Shelby District and allocated the \$155,549 revenue increase across the board to West Shelby District's monthly retail service rates.

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$1,761,097 Revenue Required from Rates, an approximate 9.69 percent increase. These rates will increase the monthly bill of a typical residential customer using 5,200 gallons a month from \$33.51 to \$36.76, an increase of \$3.25, or approximately 9.70 percent.

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<sup>8</sup> West Shelby District's Responses to Staff's First Request (filed Oct. 22, 2021), Item 20.

3. Nonrecurring Charges. Following the Commission’s recent decisions,<sup>9</sup> Commission Staff has reviewed West Shelby 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. In response to Commission Staff’s First Request, West Shelby District provided updated cost justification information for the Nonrecurring Charges that are listed in its tariff.<sup>10</sup> Commission Staff reviewed the cost justification information provided by West Shelby District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Normal Hours</u>	<u>After Hours</u>
Service Reconnection Charge	\$8	\$58
Meter Reading Re-check Charge	\$8	
Meter Test Charge	\$42	
Returned Check Charge	\$15	
Inspection of Service Line	\$0	

In its current tariff, West Shelby District charges \$25 for an inspection of a customer’s service line. In its responses to Commission Staff’s First Request, West

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<sup>9</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).

<sup>10</sup> West Shelby District’s Responses to Staff’s First Request (filed Oct. 22, 2021), Item 18, Cost\_Justifications\_NRC.pdf.

Shelby District did not provide cost justification for this charge. As a result, the service line inspection fee has been reduced to zero.

### PRO FORMA OPERATING STATEMENT

West Shelby District's Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Commission Staff, appears below.

	<u>Test Year Operations</u>	<u>Pro Forma Adjustments</u>	<u>Adj. Ref.</u>	<u>Pro Forma Operations</u>
Operating Revenues:				
Total Metered Sales	\$ 1,573,851	\$ 31,697	A.	\$ 1,605,548
Fire Protection Revenue	81,947			81,947
	<u>1,655,798</u>	<u>31,697</u>		<u>1,687,495</u>
Other Water Revenues:				
Forfeited Discounts	2,490			2,490
Misc. Service Revenues	14,041	(5,775)	B.	8,266
	<u>16,531</u>	<u>(5,775)</u>		<u>10,756</u>
Total Operating Revenues	<u>1,672,329</u>	<u>25,922</u>		<u>1,698,251</u>
Operating Expenses:				
Operation and Maintenance:				
Salaries and Wages - Employees	245,786	9,451	C.	
		(5,058)	D.	250,179
Salaries and Wages - Officers	18,000			18,000
Employee Pensions and Benefits	260,544	(20,908)	E.	
		(89,749)	F.	149,887
Purchased Water	741,625	17,184	G.	758,809
Purchased Power	28,476			28,476
Chemicals	0			0
Materials and Supplies	114,526	(11,200)	H.	103,326
Contractual Services	28,200	(9,750)	I.	18,450
Rent	3,454			3,454
Transportation Expenses	13,369			13,369
Insurance	28,728			28,728
Regulatory Commission Expense		3,462	J.	3,462
Miscellaneous Expenses	28,814	(21,827)	J.	6,987
	<u>1,511,522</u>	<u>(128,395)</u>		<u>1,383,127</u>
Total Operation and Mnt. Expenses	<u>1,511,522</u>	<u>(128,395)</u>		<u>1,383,127</u>
Depreciation Expense	560,710	243	H.	
		(202,075)	K.	358,878
Amortization Expense		3,250	I.	3,250
Taxes Other Than Income		18,365	J.	
		1,161	L.	19,526
	<u>2,072,232</u>	<u>(179,056)</u>		<u>1,764,781</u>
Total Operating Expenses	<u>2,072,232</u>	<u>(179,056)</u>		<u>1,764,781</u>
Net Utility Operating Income	<u>\$ (399,903)</u>	<u>\$ 204,978</u>		<u>\$ (66,530)</u>

(A) Billing Analysis. West Shelby District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application. The total metered water sales revenue reported for the test year is \$1,573,851.<sup>11</sup> During the test year West Shelby District increased its service rates through a purchase water adjustment (PWA), due to an increase from its supplier.<sup>12</sup> West Shelby District used the billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in the final Order for that case. Subsequently, West Shelby District increased test year water sales revenue by \$31,697 to reflect the increase in rates. Commission Staff agrees with West Shelby District's proposed revenue adjustment.

(B) Nonrecurring Charges.

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.

Nonrecurring Charge	Normal Hours NRC's	Number	Pro Forma Other Rev	Tariffed NRC's	Test-Year Other Rev	Pro Forma Adjustment
Reconnection Charge	\$ 8.00	135	1,080	\$ 50.00	6,750	\$ (5,670)
Meter Recheck Charge	\$ 8.00	0	0	\$ 50.00	0	
Meter Test Charge	\$ 42.00	0	0	\$ 75.00	0	0
Returned Check Charge	\$ 15.00	7	105	\$ 30.00	210	(105)
Inspection of Service Line	\$ -		0	\$ 25.00	0	0
Pro Forma Adjustment			<u>\$ 1,185</u>		<u>\$ 6,960</u>	<u>\$ (5,775)</u>

(C) Employee Salaries and Wages. West Shelby District proposed to increase its test-year Employee Salaries and Wages expense of \$245,786 by \$7,374 for a pro forma Employee Salaries and Wages expense of \$253,160.<sup>13</sup> On May 1, 2021, West

<sup>11</sup> 2020 Annual Report at 49, Total Metered Sales \$1,573,851.

<sup>12</sup> Case No. 2021-00240, *Electronic Purchased Water Adjustment Filing of West Shelby Water District* (Ky. PSC July 6, 2021).

<sup>13</sup> Application, Attachment 4, Schedule of Adjusted Operations, Ref. B.

Shelby District gave each of its employees a 3.00 percent wage increase.<sup>14</sup> West Shelby District calculated its proposed adjustment by applying the 3.00 percent wage increase to the total test-year Employee Salaries and Wages expense.<sup>15</sup>

An adjustment to reflect West Shelby District's May 1, 2021 wage rates would meet the ratemaking criteria of being known and measurable.<sup>16</sup> Using West Shelby District's current staff level of six full-time employees, the hours that each employee worked in the test year, and the May 1, 2021 employee wage rates, Commission Staff calculates a pro forma employee Salaries and Wages expense of \$255,237, which is \$9,451, above the reported level of \$245,786, as calculated in the table below.

Job Description	2020 Hours Worked		05/01/21 Wage Rates	Pro Forma Salaries & Wages expense		
	Regular	Overtime		Regular	Overtime	Salaries
Office/Co Manager - Hired 2/06	2,117.00	20.00	\$ 26.92	\$ 56,990	\$ 808	\$ 57,798
Field Operator Hired 7/11	2,107.00	222.00	\$ 18.92	39,864	6,300	46,164
Accounts Receivables Hired 6/20	1,232.00	0.00	\$ 16.48	20,303	0	20,303
Field/Co Manager - Hired 1/06	2,096.00	5.00	\$ 25.10	52,610	188	52,798
Accounts Payables Hired 5/20	2,080.00	0.00	\$ 14.94	31,075	0	31,075
Field Operator Hired 5/19	2,099.50	52.00	\$ 21.63	45,412	1,687	47,099
Pro Forma Employee Salaries & Wages				<u>\$ 246,254</u>	<u>\$ 8,983</u>	<u>\$ 255,237</u>
Pro Forma Employee Salaries & Wages						\$ 255,237
Less: Reported Employee Salaries & Wages						<u>(245,786)</u>
Pro Forma Adjustment						<u>\$ 9,451</u>

<sup>14</sup> *Id.*, References, Ref. B.

<sup>15</sup> *Id.* \$245,786 (Reported Employee Salaries and Wages expense) x 3% (May 1, 2021 Wage Increase) = \$7,374.

<sup>16</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).

(D) Capitalized Labor–Meter Sets. In the test-year West Shelby District installed 110 meters and collected \$105,350 in tap-on fees.<sup>17</sup> West Shelby District recorded its meter installation labor as a capital expenditure that it depreciated over the meters estimated useful life.<sup>18</sup> Two of West Shelby District’s distribution employees are responsible for the installation of new customer meters. To eliminate the cost of the capital labor for the meter installations from its pro forma operating expenses, Commission Staff is reducing Employee Salaries and Wages expense by \$5,058 as calculated in the Table below.

Emp. No.	Job Description	2020 Hours Meters	2021 Reg. Hourly Wage Rates	Capitalized Salaries
#4	Field Operator Hired 7/11	(109.00)	\$ 18.92	(2,062)
#9	Field Operator Hired 5/19	(138.50)	\$ 21.63	(2,996)
Pro Forma Adjustment				<u>\$ (5,058)</u>

(E) Employee Benefits. West Shelby District reported paying test-year employee insurance premiums of \$98,745.<sup>19</sup> Currently, West Shelby District requires its employees to contribute approximately 3.25 percent of their health insurance premium for family/parent plus coverage but does not require an employee contribution for single coverage.<sup>20</sup> The Commission has been placing a greater emphasis on evaluating employees’ total compensation packages, including both salary and benefit programs, for

<sup>17</sup> West Shelby District’s Responses to Staff’s First Request (filed Oct. 22, 2021), Item 13.

<sup>18</sup> *Id.*, Item 15.

<sup>19</sup> *Id.*, Item 2, 2020 Adjusted Trial Balance. \$85,511 (Account 8051, Employee Benefits–Insurance) + \$13,234 (Account 8056, Health Reimbursement Account) = \$98,745.

<sup>20</sup> *Id.*, Item 11, Excel Workbook: Exhibit\_8; Tab: #11 & 12 Benefits. \$3,024 (Employee Contribution) ÷ \$92,980 (Total Health Insurance Premium) = 3.25% (Average Contribution).

market and geographic competitiveness to ensure the development of a fair, just and reasonable rate.

In general rate cases filed since 2016 in which a utility sought to recover its expenses for the payment of 100 percent of its employees' health insurance premiums, the Commission has reduced test-year expenses for health insurance premiums to levels based on national average employee contribution rates. However, if the employee is contributing at a reasonable rate, the Commission has not always made the corresponding adjustment based on the national average contribution rates.<sup>21</sup> In Case No. 2019-00053,<sup>22</sup> the Commission established a policy delineating when a utility's employees' insurance contribution levels are sufficient to avoid Commission adjustment.

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<sup>21</sup> The Commission recently has noted that it would not adjust to the national average *if* the utility's employees were making a contribution and that the utility would consider increasing the employee contribution in the future. For example, the Commission has found:

The Commission notes that Northern Kentucky District has taken initial steps to address the Commission's findings in other rate cases that employees should reasonably participate in the cost of their health and dental insurance premiums in order for rates to be fair, just, and reasonable to both ratepayers and the utility. The Commission further notes that Northern Kentucky District implemented employee cost participation in health and dental insurance premiums of 5 percent, which is significantly lower than the employee cost participation of 21 percent for average single coverage and 32 percent for family coverage that the Commission has found reasonable for those utilities that do not require employee contributions to health and dental insurance. The Commission encourages Northern Kentucky District to consider increasing the actual percentage. The Commission could make an adjustment in future rate cases if the actual percentage of employee cost participation is significantly below the standard statistical average percent participation.

The Commission finds this adjustment reasonable and therefore accepts the adjustment to employee health and dental insurance expenses.

Case No. 2018-00291, *Electronic Application of Northern Kentucky Water District for an Adjustment of Rates; Issuance of Bonds; Financing; and Tariff Revisions*, (Ky. PSC Mar. 26, 2019) at 8. (Footnote omitted).

<sup>22</sup> Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019).

In that proceeding the Commission found that when the employee contribution rate for health insurance is at least 12 percent no adjustment is necessary. However, the Commission found that if a utility's employees' health insurance contribution is less than 12 percent, it will adjust all employee insurance (health family/parent plus and single) contributions to the national average.

West Shelby District's employee health insurance contribution fails to meet the minimum 12 percent Commission employee contribution threshold. Therefore, Commission Staff is reducing West Shelby District's test-year Employee Pension and Benefit expense by \$20,908 as calculated in the table below. The pro forma Employee Insurance expense of \$77,837 reflects the West Shelby District's current staff of six full-time employees and the 2021 employee insurance premiums. Commission Staff's adjustment is based on the national average employee contributions rates of 22 percent for individual health insurance, 34 percent for family/parent plus insurance,<sup>23</sup> and 60 percent for dental insurance.<sup>24</sup>

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

<sup>24</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)).

Description	Pro Forma Employee Ins. Exp.	Avg. Emp. Contribution Rate	Premium Adjustment	Adjusted Employee Ins. Exp.
Health Insurance - Single	\$ 7,593	22%	\$ (1,670)	\$ 5,923
Health Insurance - Family & Parent Plus	85,386	34%	(29,031)	56,355
Health Ins. Reimbursement Account				13,234
Dental Insurance	3,804	60%	(2,282)	1,522
Life Insurance	803			803
			<u>\$ (32,983)</u>	<u>\$ 77,837</u>
Pro Forms Employee Insurance Premiums				\$ 77,837
Less: Test-Year Employee Insurance Premiums - 2020 TB Employee Benefits				<u>(98,745)</u>
Pro Forma Adjustment				<u>\$ (20,908)</u>

(F) County Employee Retirement System (CERS). West Shelby District reported a test-year employee pension expense of \$158,535.<sup>25</sup> West Shelby District provides pension benefits and post-retirement health care benefits to its employees by participating in the CERS. As a participating member, West Shelby District is required to contribute a percentage of its employee wages to CERS. The CERS pension expense West Shelby District reported in the test year conformed to the requirements of the General Accounting Standards Board Pronouncement No. 68 (GASB 68).

In Case No. 2016-00163,<sup>26</sup> 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,

<sup>25</sup> West Shelby District's Responses to Staff's First Request (filed Oct. 22, 2021), Item 2, 2020 Adjusted Trial Balance. \$134,231 (Account 8050, Employee Benefits – Retirement) + \$24,304 (Account 8055, Retirement Health Insurance) = \$158,535.

<sup>26</sup> Case No. 2016-00163, *Alternative Rate Adjustment filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

the CERS employer contribution rate increased to 26.95 percent.<sup>27</sup> Based on the above, Commission Staff determined that West Shelby District's pro forma CERS employer contributions are \$68,786,<sup>28</sup> resulting in a decrease to Employee Pensions and Benefits expense of \$89,749.<sup>29</sup>

(G) Purchased Water. West Shelby District proposed to increase its test-year Purchased Water expense of \$741,625 by \$20,875 for a pro forma Purchased Water expense of \$762,500.<sup>30</sup> According to West Shelby District its wholesale water supplier, the Louisville Water Company (Louisville Water), increased its wholesale water rate in calendar years 2020 and 2021.<sup>31</sup> West Shelby District's proposed adjustment reflects the estimated impact Louisville Water's wholesale rate increases had on its test-year Purchased Water expense.<sup>32</sup>

In reviewing West Shelby District's applications in Case No. 2020-00184<sup>33</sup> and Case No. 2021-00240,<sup>34</sup> Commission Staff determined that West Shelby District purchased 230,783,000 gallons from Louisville Water and 70,689,700 gallons from the

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<sup>27</sup> <https://kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>

<sup>28</sup> \$255,237 (Pro Forma Employee Salaries and Wages) x 26.95% (July 1, 2020 CERS Employer Contribution Rate) = \$68,786.

<sup>29</sup> \$68,786 (Pro Forma CERS Contribution) - \$158,535 (Test-Year CERS Contribution) = (\$89,749).

<sup>30</sup> Application, Attachment 4, Schedule of Adjusted Operations, Ref. C.

<sup>31</sup> *Id.*, References, Ref. C.

<sup>32</sup> *Id.*

<sup>33</sup> Case No. 2020-00184, *Electronic Purchased Water Adjustment Filing of West Shelby Water District* (Ky. PSC June 15, 2020).

<sup>34</sup> Case No. 2021-00240, *Electronic Purchased Water Adjustment Filing of West Shelby Water District* (Ky. PSC Aug. 13, 2021).

Shelbyville Municipal Water (Shelbyville Municipal). In its 2020 general ledger,<sup>35</sup> West Shelby District recorded purchases from Louisville Water of \$568,087.

Applying Louisville Water's July 1, 2021 wholesale water rate of \$0.00246 to the 230,783,000 gallons purchased from Louisville Water and including the annual service charge of \$17,545,<sup>36</sup> Commission Staff calculates a pro forma Purchased Water expense of \$585,271.<sup>37</sup> Commission Staff is increasing West Shelby District's Purchased Water expense by \$17,184.<sup>38</sup>

(H) Materials and Supplies. West Shelby District reported a test-year materials and supplies expense of \$114,526.<sup>39</sup> In its review of the 2020 general ledger<sup>40</sup> and the test-year invoices, Commission Staff discovered that West Shelby District had expensed the cost of a directional bore of \$1,200, new meter sets of \$6,000, and moving a fire hydrant/valve of \$4,000. The identified expenditures are considered capital costs that should not be recorded as an expense in the year incurred, but rather depreciated over their estimated useful lives. Commission Staff is reducing test-year materials and supplies expense by \$11,200 to remove the capital expenditures.

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<sup>35</sup> West Shelby District's Responses to Staff's First Request (filed Oct. 22, 2021), Item 1, 2020 General Ledger, Excel Workbook: Exhibit\_1-1.

<sup>36</sup> \$1,462.10 (Current Monthly Service Charge) x 12 (months) = \$17,545.

<sup>37</sup> 230,783,000 (Test Year Gallons Purchased from Louisville Water) x \$0.00246 (Louisville Water Current Wholesale Rate) = \$567,726 + \$17,545 (Annual Service Charge) = \$585,271.

<sup>38</sup> \$585,271 (Pro Forma Purchases Louisville Water) - \$568,087 (Reported Purchases Louisville Water) = \$17,184.

<sup>39</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>40</sup> West Shelby District's Responses to Staff's First Request (filed Oct. 22, 2021), Item 1, 2020 General Ledger, Excel Workbook: Exhibit\_1-1.

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). According to the NARUC Study, the depreciation lives for the services, meter installations, and hydrants is 40 years, 45 years, and 50 years, respectively. Commission Staff is increasing depreciation expense by \$243 as calculated in the table below.

Property Description	Capital Expenditures	NARUC Depreciation Lives			Depreciation Capital Items
		Floor	Celling	Mid-Point	
Services	\$ 1,200	30.0	50.0	40.0	\$ 30
Meter Installations	6,000	40.0	50.0	45.0	133
Hydrants	4,000	40.0	60.0	50.0	80
Depreciations - Capital Expenditures	<u>\$ 11,200</u>				<u>\$ 243</u>

(l) Contractual Services. West Shelby District reported a test-year Contractual Services expense of \$28,200.<sup>41</sup> In its review of the 2020 general ledger<sup>42</sup> and the test-year invoices, Commission Staff discovered that West Shelby District had expensed \$9,750 of legal fees incurred to negotiate a water purchase agreement.

For ratemaking purposes costs that are classified as nonrecurring are removed from a utility's operating expenses and are amortized over their estimated useful life. Commission Staff is reducing Contractual Services expense by \$9,750 to eliminate the legal fees that would be classified as nonrecurring for ratemaking purposes. Operating

<sup>41</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>42</sup> West Shelby District's Responses to Staff's First Request (filed Oct. 22, 2021), Item 1, 2020 General Ledger, Excel Workbook: Exhibit\_1-1.

expenses are being increased by \$3,250<sup>43</sup> to reflect amortizing the nonrecurring legal fees over three years.

(J) Misclassified Expenses. West Shelby District reported a test-period Miscellaneous expense of \$28,814.<sup>44</sup> West Shelby District discovered that it had incorrectly recorded the payment of its \$3,462 Public Service Commission Assessment (PSC Assessment) in the Miscellaneous expense account.<sup>45</sup> West Shelby District proposed to correct its error by moving the misclassified PSC Assessment from Miscellaneous expense to Regulatory Commission expense.<sup>46</sup>

Upon its review of the 2020 General Ledger, Commission Staff determined that West Shelby District did incorrectly record the \$3,462 PSC Assessment but also misclassified its Federal Insurance Contributions Act Taxes (FICA Tax) of \$18,365 in its Miscellaneous expense account. To correct West Shelby District's misclassification errors, Commission Staff is reducing Miscellaneous expense by \$21,827,<sup>47</sup> increasing Regulatory Commission expense by \$3,462, and is increasing Payroll Tax expense by \$18,365.

(K) Depreciation Lives. West Shelby District proposed to decrease its test-year Depreciation expense of \$560,710 by \$350,631 for a pro forma Purchased Water expense of \$210,079.<sup>48</sup> Upon preparing its rate application, West Shelby District

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<sup>43</sup>  $\$9,750 \text{ (Nonrecurring Legal Fees)} \div 3 \text{ (Years)} = \$3,250.$

<sup>44</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>45</sup> *Id.*, References, Ref. B.

<sup>46</sup> *Id.*

<sup>47</sup>  $\$3,462 \text{ (PSC Assessment)} + \$18,365 \text{ (FICA Tax)} = \$21,827.$

<sup>48</sup> Application, Attachment 4, Schedule of Adjusted Operations, Ref. E.

determined that its current depreciation lives are too aggressive.<sup>49</sup> According to West Shelby District, its proposed depreciation lives are not supported by a formal depreciation study but rather were developed in discussions that were held between its management, Commissioners, consulting engineers, and Auditor.<sup>50</sup> West Shelby District's proposed useful life of each asset category reflects the consensus opinion of this group.<sup>51</sup>

Upon its review of the reasonableness of the depreciable lives of each asset category in West Shelby District's proposed depreciation schedule, Commission Staff determined that all of West Shelby District's asset categories are outside of the ranges contained in the NARUC Study. Applying the midpoint of the NARUC Study range for each asset category results in a pro forma Depreciation expense of \$358,635,<sup>52</sup> which is \$202,075<sup>53</sup> below the reported test-year level. Accordingly, Commission Staff is decreasing Depreciation expense by \$202,075.

(L) Payroll Taxes. West Shelby District reported a test-year payroll tax expense of \$18,365.<sup>54</sup> Using the pro forma Employee Salaries and Wages expense of \$255,237 and the current FICA rate of 7.65 percent, Commission Staff calculated a pro forma FICA

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<sup>49</sup> *Id.*, References, Ref. E.

<sup>50</sup> West Shelby District's Responses to Staff's First Request (filed Oct. 22, 2021), Item 19.b.

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

<sup>52</sup> *Id.*, Item 19.c., Excel Workbook: Exhibit\_19-c.

<sup>53</sup> \$358,635 (Staff's Pro Forma Depreciation Expense) - \$560,710 (Reported Depreciation Expense) = \$202,075.

<sup>54</sup> Application, Attachment 4, Schedule of Adjusted Operations.

expense of \$19,526.<sup>55</sup> Accordingly, Commission Staff is increasing West Shelby District's payroll tax expense by \$1,161.<sup>56</sup>

#### OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a DSC method to calculate the revenue requirement of water districts and water associations.<sup>57</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 West Shelby District's and Commission Staff's calculations of the revenue requirement and required revenue increase using the DSC method is shown below:<sup>58</sup>

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<sup>55</sup>  $\$255,237$  (Pro Forma Employee Salaries and Wages expense) x 7.65% (FICA Rate) =  $\$19,526$ .

<sup>56</sup>  $\$19,526$  (Pro Forma Payroll Tax) -  $\$18,365$  (Reported Test-Year Payroll Tax) =  $\$1,161$ .

<sup>57</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).

<sup>58</sup> The main difference between West Shelby District's and Commission Staff's revenue requirement calculations is that West Shelby District did not include its Fire Protection Revenue of \$81,947 in its calculation.

	West Shelby District	Staff
Pro Forma Operating Expenses	\$ 1,749,850	\$ 1,764,781
Plus: Average Annual Debt Service	88,108	88,108
Debt Service Coverage Requirement	<u>17,622</u>	<u>17,622</u>
Overall Revenue Requirement	1,855,580	1,870,511
Less: Other Operating Revenue	(16,531)	(10,756)
Fire Protection Revenue		(81,947)
Interest Income	<u>(16,711)</u>	<u>(16,711)</u>
Revenue Required from Water Sales	1,822,338	1,761,097
Less: Normalized Revenues from Water Sales	<u>(1,603,500)</u>	<u>(1,605,548)</u>
Required Revenue Increase/(Decrease)	<u>\$ 218,838</u>	<u>\$ 155,549</u>
Percentage Increase	<u>13.65%</u>	<u>9.69%</u>

#### Average Annual Principal and Interest Payments.

At the time of Commission Staff's review, West Shelby District had an outstanding loan from the Kentucky Rural Water Finance Corporation (KRWFC)<sup>59</sup> and one bond issuance from the U.S. Department of Agriculture's Rural Development (RD).<sup>60</sup> In calculating its revenue requirement, West Shelby District used an average annual debt service of \$88,108 and a 0.2 DSC of \$17,622.<sup>61</sup> Upon its review of West Shelby District's debt amortization schedules, Commission Staff verified that West Shelby District's calculations are correct.

<sup>59</sup> Case No. 2013-00042, *Kentucky Rural Water Finance Corporation Joint Application on Behalf of Certain Water Districts for Authority to Borrow Funds to Refinance Certain Outstanding Indebtedness to the Kentucky Rural Water Finance Corporation* (Ky. PSC Mar. 27, 2013).

<sup>60</sup> Case No. 1999-00478, *In the Matter of the Application of West Shelby Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023* (Ky. PSC Dec. 13, 1999).

<sup>61</sup> Application, Attachment 5, Revenue Requirement Calculation – Debt Coverage Method.

Signatures

\_\_\_\_/s/Mark Frost\_\_\_\_\_

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

\_\_\_\_/s/Jason Green\_\_\_\_\_

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

## APPENDIX

### APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00241 DATED JAN 06 2022

The following rates and charges are prescribed for the customers in the area served by West Shelby Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

#### Monthly Water Rates

##### 5/8-inch Meter

First	2,500 Gallons	\$20.29 Minimum Bill
Next	7,500 Gallons	0.00610 Per Gallon
Next	20,000 Gallons	0.00575 Per Gallon
Next	200,000 Gallons	0.00530 Per Gallon
Over	230,000 Gallons	0.00485 Per Gallon

##### 3/4-inch Meter

First	3,500 Gallons	\$26.38 Minimum Bill
Next	6,500 Gallons	0.00610 Per Gallon
Next	20,000 Gallons	0.00575 Per Gallon
Next	200,000 Gallons	0.00530 Per Gallon
Over	230,000 Gallons	0.00485 Per Gallon

##### 1-inch Meter

First	5,000 Gallons	\$35.50 Minimum Bill
Next	5,000 Gallons	0.00610 Per Gallon
Next	20,000 Gallons	0.00575 Per Gallon
Next	200,000 Gallons	0.00530 Per Gallon
Over	230,000 Gallons	0.00485 Per Gallon

##### 1 1/2-inch Meter

First	10,000 Gallons	\$65.98 Minimum Bill
Next	20,000 Gallons	0.00575 Per Gallon
Next	200,000 Gallons	0.00530 Per Gallon
Over	230,000 Gallons	0.00485 Per Gallon

2-inch Meter

First 16,000 Gallons	\$100.44 Minimum Bill
Next 14,000 Gallons	0.00575 Per Gallon
Next 200,000 Gallons	0.00530 Per Gallon
Over 230,000 Gallons	0.00485 Per Gallon

3-inch Meter

First 30,000 Gallons	\$180.88 Minimum Bill
Next 200,000 Gallons	0.00530 Per Gallon
Over 230,000 Gallons	0.00485 Per Gallon

4-inch Meter

First 50,000 Gallons	\$286.78 Minimum Bill
Next 180,000 Gallons	0.00530 Per Gallon
Over 230,000 Gallons	0.00485 Per Gallon

5-inch Meter

First 100,000 Gallons	\$551.54 Minimum Bill
Next 130,000 Gallons	0.00530 Per Gallon
Over 230,000 Gallons	0.00485 Per Gallon

Nonrecurring Charges

Service Reconnection Charge	\$8.00
Service Reconnection Charge (After Hours)	\$58.00
Meter Reading Re-check Charge	\$8.00
Meter Test Charge	\$42.00
Returned Check Charge	\$15.00
Inspection of Service Line	\$0.00

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