

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MCCREARY)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2021-00301
ALTERNATIVE RATE ADJUSTMENT)	

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of January 6, 2022, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's January 6, 2022 Order, McCreary County Water District (McCreary 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 McCreary District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED MAR 11 2022

cc: Parties of Record

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

STAFF REPORT
ON
MCCREARY COUNTY WATER DISTRICT
CASE NO. 2021-00301

McCreary County Water District (McCreary District), a water district organized pursuant to KRS Chapter 74, provides water service to approximately 6,259 residential, commercial, industrial, and public authority customers in McCreary County, Kentucky.¹ In the final Order for Case No. 2020-00399,² McCreary District was ordered to file an application by June 25, 2021, for a general rate adjustment which includes financial data for both its sewer and water divisions pursuant to KRS 278.190 and 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 to ensure that there is no cross-subsidization of rates between the sewer and water operating divisions.

On September 24, 2021, McCreary District tendered its application to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. By letter dated September 27, 2021, the Commission rejected the application for filing deficiencies. McCreary District's application was accepted as filed as of September 27, 2021; the date McCreary District's cured its filing deficiencies. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated

¹ *Annual Water Report of McCreary County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Water Report) at 12 and 49.

² See Case No. 2020-00399, *Electronic Application of McCreary County Water District for Authorization to Execute an Assistance Agreement with the Kentucky Infrastructure Authority and for a Certificate of Public Convenience and Necessity to Construct the Sanitary Sewer Collection System Expansion Phase 1 Project* (Ky. PSC Mar. 11, 2021).

October 8, 2021. On November 11, 2021, McCreary District submitted its motion requesting an additional seven days in which to respond to Commission Staff's First Request for Information (Staff's First Request). By its Order dated November 23, 2021, the Commission granted McCreary District's motion and amended the procedural schedule to extend the remaining deadlines. On January 3, 2022, McCreary District submitted its motion requesting an additional seven days in which to respond to Commission Staff's Second Request for Information (Staff's Second Request), and indicating it waived its right to place the rates into effect prior to a final decision by the Commission. By its Order dated January 6, 2022, the Commission granted McCreary District's second motion for an extension of time and amended the procedural schedule to extend the issuance date of the Commission Staff Report.

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15.00 percent for ratemaking purposes. The Commission Staff notes that McCreary District reported a water loss of 13.53 percent in its 2020 Annual Water Report.³ At a 13.53 percent water loss, the total annual cost of water loss to McCreary District is \$58,564.⁴

To comply with the requirements of 807 KAR 5:076, Section 9, McCreary District based its requested rates on a historic test period that coincides with the reporting period

³ 2020 Annual Water Report at 57 and 58.

⁴

	<u>Electricity</u>	<u>Chemicals</u>	<u>Total</u>
Cost of Water Production	\$ 300,264	\$ 132,583	\$ 432,847
Multiplied by: Test Year Water Loss	<u>13.53%</u>	<u>13.53%</u>	<u>13.53%</u>
Cost of Water Loss	<u>\$ 40,626</u>	<u>\$ 17,938</u>	<u>\$ 58,564</u>

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, McCreary District determined in its application that it could justify a revenue increase for its water division of \$348,505, or 8.70 percent.⁵ However, citing the 12.50 percent rate increase that was implemented in January 2021 and the hardship an additional 8.70 percent increase would place upon its customers with incomes either at or below the federal poverty threshold, McCreary District limited its request to a revenue increase of \$174,252, or 4.35 percent.⁶

<u>Revenue Requirement - Water Division</u>	
Pro Forma Operating Expenses as Filed	\$ 3,649,403
Plus: Average Annual Debt Service	713,442
Debt Service Coverage Requirement	<u>142,688</u>
Overall Revenue Requirement	4,505,533
Less: Other Water Revenues	(139,711)
Interest Income	<u>(11,152)</u>
Revenue Required from Water Sales	4,354,670
Less: Normalized Revenues from Water Sales	<u>(4,006,165)</u>
Required Revenue Increase/(Decrease)	<u>\$ 348,504</u>
Percentage Increase	<u>8.70%</u>

McCreary District is requesting that the Commission authorize a two-year phase-in of its requested water rates. As shown in the table below for a typical residential customer using 4,000 gallons of water per month the requested phase-one rates would increase the monthly bill by \$0.89, from \$41.00 to \$41.89, or approximately 2.17 percent.

⁵ Application, Exhibit D, Revenue Requirement Calculation – Debt Service Coverage Method.

⁶ *Id.*, at 3, paragraph 14.

The requested phase-two rates would increase the monthly bill of a typical residential customer by \$0.89, from \$41.89 to \$42.78, or approximately 2.12 percent.

Usage Increments	Average Bill	Existing Rates		Phase 1 Rates		Phase 2 Rates	
		Rates	Bills	Rates	Bills	Rates	Bills
First (Min. Bill)	2,000	\$ 22.50	\$ 22.50	\$ 22.99	\$ 22.99	\$ 23.48	\$ 23.48
Over	2,000	\$ 0.00925	18.50	\$ 0.00945	18.90	\$ 0.00965	19.30
Average Bills	4,000		<u>\$ 41.00</u>		<u>\$ 41.89</u>		<u>\$ 42.78</u>
Increase in Average Bill					<u>\$ 0.89</u>		<u>\$ 0.89</u>
Percentage Increase in Average Bill					<u>2.17%</u>		<u>2.12%</u>

To determine the reasonableness of the rates requested by McCreary District, Commission Staff performed a limited financial review of McCreary 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 McCreary District’s Pro Forma Operating Expenses and its Overall Revenue Requirement. Eddie Beavers reviewed McCreary District’s reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, as generally accepted by the Commission, Commission Staff found that McCreary District’s water division required an Overall Revenue Requirement

is \$4,454,607. To meet the Overall Revenue Requirement, McCreary District requires a \$168,398, or 4.08 percent, revenue increase to Pro Forma present rate revenues.

2. Monthly Water Service Rates. McCreary District proposed to increase its monthly retail and wholesale water service rates by classification of customer over two phases. McCreary District has not performed a cost of service study (COSS). McCreary District stated that it did not complete a COSS at this time as the Commission Order requiring the filing of this rate case did not direct it to file a COSS.⁷ McCreary District further stated that it expects to have significant growth and changes in the sewer system over the next 24 to 36 months.⁸ McCreary District anticipates filing another rate case within 30 months once this application has been finalized and at that time a comprehensive COSS will accompany the filing.⁹

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 has followed the method previously accepted by the Commission and has allocated the \$168,398, revenue increase evenly across the board to McCreary District's monthly retail and wholesale water service rates. Even though McCreary District intends to file another rate application within the next 30 months, due to the relative small size of the increase, Commission Staff recommends that the Commission apply the increase in totality.

⁷ McCreary District's Response to Staff's First Request (filed Nov. 19, 2021), Item 30.

⁸ *Id.*

⁹ *Id.*

The rates set forth in Appendix A 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 \$4,293,813, revenue required from rates, an approximate 4.08 percent increase. These rates will increase a typical residential customer’s monthly water bill from \$41.00 to \$42.68, an increase of \$1.68, or approximately 4.10 percent.¹⁰

3. Nonrecurring Charges. Following the Commission’s recent decisions,¹¹ Staff has reviewed McCreary 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 the 2011 Tariff filing.¹² Such adjustments result in the following revised nonrecurring charges:

<u>Water Nonrecurring Charges</u>	
Meter Re-Read Charge	\$12.50
Meter Test Charge	\$12.50
Reconnect Charge	\$12.50
Return Check Charge	\$8.50

The adjustments to the Nonrecurring Charges results in a decrease to Other Operating revenue of \$8,480, as shown below.

¹⁰ The typical residential customer uses approximately 4,000 gallons per month.

¹¹ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment*, (Ky. PSC Dec. 30, 2020).

¹² TFS 2011-00680, (Commission Letter of Acceptance, Nov. 11, 2011).

Nonrecurring Charge	Normal Hours NRC's	Number of Occurrences	Commission Staff Pro Forma Other Rev	Tarified NRC's	Test-Year Other Rev	Pro Forma Adjustment
Reconnection Fee (2019)	\$ 12.50	677	8,463	\$ 50.00		\$ 8,463
Reconnection Fee (2020)		334		\$ 50.00	16,700	(16,700)
Returned Check Charge (Actual)		14		\$ 25.00	350	(350)
Returned Check Charge	\$ 8.50	11	94		0	94
Returned Check Charge Allocated 50% (Sewer)	\$ 4.25	3	13	\$ 12.50	0	13
Meter Reread Charge	\$ 12.50	0	0	\$ 20.00	0	0
Meter Retest Charge	\$ 12.20	0	0	\$ 35.00	0	0
Pro Forma Adjustment			\$ 8,570		\$ 17,050	\$ (8,480)

PRO FORMA OPERATING STATEMENT

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

	Test Year Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues				
Sales of Water	\$ 3,623,288	\$ 502,127	A	4,125,415
Other Water Revenue				
Miscellaneous Service Revenues	105,578	(8,480)	B	97,098
Rents from Water Properties	52,544			52,544
Total Other Water Revenues	158,122	(8,480)		149,642
Total Operating Revenues	3,781,410	493,647		4,275,057
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	877,486	(79,301)	C	775,751
Salaries and Wages - Commissioners	30,000	(6,664)	E	23,336
Employee Pensions and Benefits	648,236	(58,235)	F	590,001
Purchased Power for Pumping	302,100	(1,836)	G	300,264
Chemicals	132,583			132,583
Materials and Supplies	251,395	(36,537)	I	214,858
Contractual Services	361,049	(49,975)	J	311,074
Water Testing	1,732			1,732
Transportation Expenses	86,251			86,251
Insurance	69,138	(17,509)	K	51,629
Regulatory Commission Exp.	9,476	(6,644)	L	44,985
Bad Debt	53,440	(926)	M	8,550
Misc. Expense	116,109	2,082	J	118,191
Total Operation and Maintenance Expenses	2,938,995	(516,657)		2,422,338
Depreciation	1,092,601	(21,205)	N	1,072,010
Amortization	43,068	614	H	43,068
Taxes Other Than Income	75,523	(14,462)	O	61,061
Total Operating Expenses	4,150,187	(551,710)		3,598,477
Net Operating Income	\$ (368,777)	\$ 1,045,357		\$ 676,580

(A) Billing Analysis. McCreary District proposed to decrease its test-year revenues from water sales of \$3,623,288 by \$382,877 to reflect the current billing analysis provided by the district. Commission Staff notes that McCreary District made adjustments for leaks and defective readings that are not reflected in the billing analysis. These adjustments along with the increase in rates during the test period causes an adjustment to the Test Year operations of approximately \$502,127. As these adjustments meet the ratemaking criteria of being known and measurable and Commission Staff recommends that the Commission accepts the adjustment. This adjustment to the normalized rates of \$502,127, calculates a pro forma operations water sales revenue of \$4,125,415.

(B) Miscellaneous Service Revenues. McCreary District explained that during the test-year, the Commission suspended customer disconnections for nonpayment of bills.¹³ For this reason the reported customer disconnect/reconnect revenues were abnormally low.¹⁴ McCreary District proposed to use the customer disconnects reported in calendar year 2019 of 677.¹⁵ McCreary District increased Miscellaneous Service revenues by \$16,700 to reflect the 2019 customer disconnects.¹⁶

McCreary District's adjustment is reasonable in that it reflects the expected number of customer disconnects/reconnects that will occur in a normal test-year and, therefore, Commission Staff recommends McCreary District's adjustment to the number of customer disconnections be accepted. Adjusting Miscellaneous Service revenues to reflect the

¹³ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility References, Ref. B.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.* 677 (Customer Disconnects) x \$50 (Reconnect/Disconnect Fee) = \$16,700.

individual NRCs discussed in an earlier section in this report, eliminating the customer disconnects actually recorded in the test year, and including pro forma customer reconnections of 677 results in a decrease of \$8,480.

Nonrecurring Charge	Normal Hours NRC's	Number of Occurrences	Commission Staff Pro Forma Other Rev	Tariffed NRC's	Test-Year Other Rev	Pro Forma Adjustment
Reconnection Fee (2019)	\$ 12.50	677	8,463	\$ 50.00		\$ 8,463
Reconnection Fee (2020)		334		\$ 50.00	16,700	(16,700)
Returned Check Charge (Actual)		14		\$ 25.00	350	(350)
Returned Check Charge	\$ 8.50	11	94		0	94
Returned Check Charge Allocated 50% (Sewer)	\$ 4.25	3	13	\$ 12.50	0	13
Meter Reread Charge	\$ 12.50	0	0	\$ 20.00	0	0
Meter Retest Charge	\$ 12.20	0	0	\$ 35.00	0	0
Pro Forma Adjustment			<u>\$ 8,570</u>		<u>\$ 17,050</u>	<u>\$ (8,480)</u>

(C) Salaries and Wages - Employees. McCreary District's reported a total test-year Employee Salaries and Wages expense of \$1,129,234; the water division reported \$877,486¹⁷ and the sewer division reported \$251,748.¹⁸ McCreary District calculated its proposed pro forma total Salaries and Wages expense of \$1,094,071¹⁹ using the employee positions that were active as of June 30, 2021, the employee wage rates as of January 1, 2021, and the manager/superintendent salary contained in the revised employment contract.²⁰ By applying the Allocation Rules attached to its application,²¹

¹⁷ 2020 Annual Water Report at 50.

¹⁸ *Annual Report of McCreary County Water District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2020 (2020 Annual Report Sewer Division)* at 27-28. \$47,786 (Collection - Labor, Materials and Expense) + \$203,962 (Administrative and General Salaries) = \$251,748.

¹⁹ McCreary District's Responses to Staff's First Request, Item 16, Excel Workbook: 2021-00301_Application_01_RateCalculationsSpreadsheetWater.xlsx; Tab: Wages-Benefits.

²⁰ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility References, Ref. C.

²¹ *Id.*, Allocation Rules.

McCreary District allocated \$919,074²² of its total pro forma total Salaries and Wages expense resulting in a pro forma adjustment of \$41,588.²³

According to McCreary District the reported 2020 employee vacation hours included lump sum payments to employees for unused vacation hours which might have included accumulated leave from prior years.²⁴ Commission Staff requested McCreary District to provide its written policy regarding vacation pay²⁵ and to explain if it requires its employees to use all of their vacation hours in the calendar year earned, if they are allowed to accrue any unused hours into the next calendar year, or if they receive a lump sum payment for any unused vacation hours at the end of the year.²⁶ McCreary District has failed to provide adequate documentation to show that its policy regarding the lump-sum payments to its employees for unused vacation time is reasonable or warranted. Commission Staff is not including the lump sum payments in its calculation of pro forma Employee Salaries and Wages expense.

An adjustment to reflect the actual 2021 wage rates would meet the ratemaking criteria of being known and measurable.²⁷ Using McCreary District's current staff level of

²² *Id.*, Schedule of Adjusted Operations – Water Utility References, Ref. C. \$919,074 (Total Adjusted Wages Allocated to Water Division)

²³ \$919,074 (Total Adjusted Wages Allocated to Water Division) - \$877,486 (Reported Employee Salaries and Wages expense) = \$41,588.

²⁴ McCreary District's Responses to Staff's Second Request, Item 4.c.

²⁵ *Id.*, Item 7.a.

²⁶ *Id.*, Item 7.b.

²⁷ 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*

23 full-time employees, five part-time employees, the 2021 employee wage rates, 2,080 regular work hours for the full-time employees (Regular, Sick, Vacation, and Bereavement), and the actual hour worked for the part-time employees, Commission Staff calculated a total pro forma Employee Salaries and Wages expense for McCreary District of \$1,111,361. This method accounts for current wage rates and annualizes test-year wages paid to any employee hired during the test year. As shown in Appendix B attached hereto, Commission Staff applied McCreary District's allocation factors to the pro forma salary of each employee, to arrive at its allocated pro forma Salaries and Wages expense for the water division of \$798,185, which results in a reduction of \$79,301.

(D) Tap-on Fees. During the test year, McCreary District collected 59 tap-on fees for new water meter installations.²⁸ According to McCreary District it reported the cost of the labor to install the meters as an operating expense when the meters were installed.²⁹ McCreary District is proposing to reduce Employee Salaries and Wages expense by \$22,434³⁰ to remove the capitalized labor expense associated with the water connections.³¹ McCreary District's adjustment is reasonable and meets the ratemaking criteria of being known and measurable. Therefore, Commission Staff recommends the adjustment be accepted.

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).

²⁸ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility References, Ref. C.

²⁹ *Id.*

³⁰ \$380.23 (Labor Cost per Meter Installation) x 59 (Taps) = \$22,434.

³¹ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility References, Ref. C.

(E) Salaries and Wages - Commissioners. McCreary District proposed to decrease its test-year Salaries and Wages - Commissioner expense of \$30,000 by \$6,664 for a pro forma expense level of \$23,336.³² In the test-year a McCreary District Commissioner failed to complete the required 6 hours of training and, therefore, received an annual Commissioner fee of \$3,600 instead of the reported fee of \$6,000.³³ The Commissioner repaid the excess fee to McCreary District in 2021.³⁴ McCreary District's adjustment reflects allocation of the corrected test-year Salaries and Wages – Commissioner expense of \$27,000 between water and sewer operations based upon the number of customers each division served.³⁵ McCreary District's adjustment is reasonable and meets the ratemaking criteria of being known and measurable. Therefore, Commission Staff McCreary District's proposed adjustment to reduce Salaries and Wages Commissioners expense by \$6,664 be accepted.

(F) Employee Benefits. McCreary District proposed to decrease its test year Employee Benefits (Health, Dental, Vision, and Life Insurance Premiums) expense of \$190,329³⁶ by \$42,616 to a pro forma expense level of \$147,673.³⁷ McCreary District

³² *Id.*, Schedule of Adjusted Operations – Water Utility, Ref. D.

³³ *Id.*, Schedule of Adjusted Operations – Water Utility References, Ref. D.

³⁴ *Id.*

³⁵ *Id.*, \$27,000 (Corrected Commissioner Fees) x 84.55% (Ratio of Water Customers to Total Customers) = \$23,336 (Water Division's Allocated Commissioner Fee) - \$30,000 (Reported Test-Year Commissioner Fee) = \$6,664.

³⁶ McCreary District's Responses to Staff's First Request, Item 14, 2020 Adjusted Trial Balance. \$20,140 (604 · Employee Pensions and Benefits) + \$169,925 (604 · Employee Pensions and Benefits – Employee Insurance) + \$264 (604 · Employee Pensions and Benefits – Medical) = \$190,329.

³⁷ *Id.*, Item 16, Excel Workbook: 2021-00301_Application_01_RateCalculationsSpreadsheet Water.xlsx; Tab: Wage-Benefits. \$139,995 (Allocated Health Prem.) + \$3,718 (Allocated Dental Pre.) + \$2,778 (Allocated Vision Prem.) + \$1,222 (Allocated Life Prem.) = \$147,713 (Pro Forma Employee Benefits expense) - \$190,329 (Test-Year Employee Benefits expense) = \$42,616.

currently pays 100 percent of the monthly premiums for single health coverage, vision, dental, and life insurance for its eligible full-time employees.³⁸ McCreary District explained that the Commission currently places the following employer contribution limitations on employee insurance benefits: a 79 percent limit single employee health insurance coverage, a 66 percent on family coverage, and a 60 percent limitation dental coverage.³⁹ Applying those percentages and the allocation factors for employee salaries to the current employee insurance premiums is the basis of McCreary District's proposed adjustment.⁴⁰

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

Consistent with past precedent, in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee's health insurance coverage; Commission Staff reduced McCreary District's single health insurance premiums by

³⁸ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility References, Ref. E.

³⁹ *Id.*

⁴⁰ *Id.*

22 percent for individual health insurance, 34 percent for family/parent plus insurance,⁴¹ and by 60 percent dental insurance, the national average employee contribution rate.⁴² Factoring in the past Commission precedent and using McCreary District's salary allocation factors, Commission Staff decreased employee pensions and benefits by \$58,235, as calculated in Appendix C attached hereto.

(G) County Employee Retirement System (CERS). McCreary District proposed to decrease its test-year Employee Pension expense of \$446,193⁴³ by \$218,024 to a pro forma expense level of \$230,169.⁴⁴ McCreary District provides pension benefits and post-retirement health care benefits to its employees by participating in the CERS. As a participating member, McCreary District is required to contribute a percentage of its employee wages to CERS. The CERS pension expense McCreary District reported in the test year conformed to the requirements of the General Accounting Standards Board Pronouncement No. 68 (GASB 68).

In Case No. 2016-00163,⁴⁵ the Commission discussed in great detail the reporting requirements of GASB 68, and how those requirements would impact a utility's income

⁴¹ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>)

⁴² The Willis Benchmarking Survey, 2015, at 62–63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

⁴³ McCreary District's Responses to Staff's First Request, Item 14, 2020 Adjusted Trial Balance. \$208,673 (Account 604, Employee Pensions and Benefits – Retirement) + \$196,907 (Account 604, Employee Pensions and Benefits – GASB 68 Retirement) + \$40,613 (Account 604, Employee Pensions and Benefits – Retirement OPEB Retirement Expense) = \$40,613.

⁴⁴ *Id.*, Item 16, Excel Workbook: 2021-00301_Application_01_RateCalculationsSpreadsheet Water.xlsx; Tab: 230,169 (Pro Forma CERS expense) - \$446,193 (Test-Year CERS expense) = \$46,616.

⁴⁵ Case No. 2016-00163, *Alternative Rate Adjustment filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

statement and balance sheet. In that proceeding, the Commission found the annual pension expense should be equal to the amount of a district's contributions to CERS, which historically have been "fairly constant." In the fiscal year, beginning July 1, 2021, the CERS employer contribution rate increased to 26.95 percent.⁴⁶ Based on the above, Staff determined that McCreary District's pro forma CERS employer contributions for the water division is \$207,515, resulting in a decrease to Employee Pensions and Benefits expense of \$238,678, as calculated in Appendix C attached hereto.

(H) Electricity – Office. Included in McCreary District's test-year purchased Power expense of \$302,100 is the cost of electricity service incurred for the main office building of \$11,886.⁴⁷ McCreary District's proposed adjustment of \$1,836 allocates the cost of the office electricity between the water and sewer divisions based upon the number of customers each division served.⁴⁸ McCreary District's adjustment is reasonable and meets the ratemaking criteria of being known and measurable. Therefore, Commission Staff recommends the Purchased Power expense be reduced by \$1,836.

(I) Materials and Supplies. McCreary District reported test-year materials and supplies expense of \$251,395.⁴⁹ In its review of the 2020 general ledger and the test-year invoices, Commission Staff discovered that McCreary District had expensed the

⁴⁶ <https://kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>.

⁴⁷ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility, Ref. F and Schedule of Adjusted Operations – Water Utility References, Ref. F.

⁴⁸ *Id.*, Schedule of Adjusted Operations – Water Utility References, Ref. F.

⁴⁹ *Id.*, Exhibit C, Schedule of Adjusted Operations – Water Utility.

expenditures associated with line extensions listed in the table below.⁵⁰ 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 \$36,537 to remove the capital expenditures.

Acct. #	Check No.	Vendor	Description	Amount
636	35669	Eclipse Engineers, PLC	ARCGis System Mapping	\$ (1,799)
636	36332	Walters Surveying	Surveying Work	(9,475)
636	36564	Bennett & Williams	GIS System Installed	(7,562)
636	36813	Eclipse Engineers, PLC	Engineering Services	(5,300)
636	3790	Eclipse Engineers, PLC	Water Line	(1,200)
636	37290	Stott's Construction	6-Inch Directional Bore	(13,000)
Total Capital Items				<u>\$ (36,537)</u>

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 identified capital expenditures is 62.5 years. Commission Staff is increasing depreciation expense by \$614 as calculated in the table below.

Property Description	Capital Expenditures	NARUC Depreciation Lives			Depreciation Capital Items
		Floor	Celling	Mid-Point	
ARCGis System Mapping	\$ 1,799	50.0	75.0	62.5	\$ 29
Surveying Work	9,475	50.0	75.0	62.5	152
GIS System Installed	7,562	50.0	75.0	62.5	121
Engineering Services	5,300	50.0	75.0	62.5	85
Water Line	1,200	50.0	75.0	62.5	19
6-Inch Directional Bore	13,000	50.0	75.0	62.5	208
Depreciations - Capital Expenditures	<u>\$ 38,336</u>				<u>\$ 614</u>

(J) Operating Expense - Allocations. McCreary District proposed to decrease test-year Contractual Services expense of \$361,049 by \$49,975 and to increase test-year

⁵⁰ McCreary District's Responses to Staff's First Request, Item 19, 2020 General Ledger and Item 29, Invoice Table.

Miscellaneous expense of \$116,109 by \$2,082.⁵¹ McCreary District's proposed adjustments allocates common costs to its sewer division based upon number of customers served by each division and to reassigns costs incurred solely for sewer operations to the sewer division.⁵² McCreary District's adjustments are reasonable and meets the ratemaking criteria of being known and measurable. Therefore, Commission Staff recommends that Contractual Services expense be decreased by \$49,975 and that Miscellaneous expense be increased by \$2,082.

(K) Insurance - Workers Compensation. McCreary District proposed to decrease its test-year Workers Compensation expense of \$26,835⁵³ by \$16,839 to a pro forma expense level of \$9,995.⁵⁴ McCreary District proposed to allocate its current workers compensation insurance premium between the water and sewer divisions based upon the adjusted payroll of each division.⁵⁵ Using its allocated Employee Salaries and Wages expense and the current workers compensation premium, Commission Staff calculates a pro forma Workers Compensation expense of \$9,327 for a decrease of \$17,509 as shown in the table below.

⁵¹ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility, Ref. F and Schedule of Adjusted Operations – Water Utility References, Ref. G.

⁵² *Id.*, Schedule of Adjusted Operations – Water Utility References, Ref. F and Schedule of Adjusted Operations – Water Utility References, Ref. G.

⁵³ McCreary District's Responses to Staff's First Request, Item 14, 2020 Adjusted Trial Balance. \$26,835 (Account 658, Insurance Workers Comp.).

⁵⁴ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility Ref. I and Adjusted Operations – Water Utility References, Ref. H. \$9,996 (Pro Forma Workers Comp. Expense) - \$26,835 (Reported Workers Comp. expense) = \$16,839.

⁵⁵ *Id.*

	Amount	Ratio
Pro Forma Emp. Salaries & Wags - Water	\$ 798,185	71.82%
Pro Forma Emp. Salaries & Wags - Sewer	313,176	28.18%
Pro Forma Emp. Salaries & Wags - Total	<u>\$ 1,111,361</u>	<u>100.00%</u>
Worker Compensation Ins.		\$ 12,987
Multiplied by: Payroll Allocation Water Factor		<u>71.82%</u>
Workers Compensation - Water		9,327
Less: Reported Workers Comp. expense		<u>(26,836)</u>
Pro Forma Adjustment		<u>\$ (17,509)</u>

(L) Insurance - General Liability. McCreary District proposed to decrease its test-year General Liability expense of \$33,976⁵⁶ by \$6,475 to a pro forma expense level of \$27,051.⁵⁷ McCreary District proposed to allocate its current general liability insurance premium between the water and sewer divisions based upon the pro forma operating revenues of each division.⁵⁸ Using its Pro Forma Operating revenues and the current general liability premium, Commission Staff calculates a pro forma Workers Compensation expense of \$27,138 for a decrease of \$6,651 as shown in the table below.

⁵⁶ McCreary District's Responses to Staff's First Request, Item 14, 2020 Adjusted Trial Balance. \$33,976 (Account 657, Insurance Gen. Liability).

⁵⁷ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility Ref. I and Adjusted Operations – Water Utility References, Ref. H. \$27,051 (Pro Forma Workers Comp. Expense) - \$33,976 (Reported Workers Comp. expense) = \$6,475.

⁵⁸ *Id.*

	Amount	Ratio
Normalized Operating Revenue - Water	\$ 4,269,334	76.02%
Normalized Operating Revenue - Sewer	1,346,705	23.98%
Normalized Operating Revenue - Total	<u>\$ 5,616,039</u>	<u>100.00%</u>
Test-Year Gen. Liability Ins.		\$ 35,944
Multiplied by: Payroll Allocation Water Factor		<u>76.02%</u>
Gen. Liability Ins. - Water		27,325
Less Reported Gen Liab. Insurance		<u>(33,976)</u>
Pro Forma Adjustment		<u>\$ (6,651)</u>

(M) Public Service Commission (PSC) Assessment. McCreary District reported test-year Regulatory Commission expense of \$9,476, which reflects the PSC Assessment for the combined water and sewer divisions.⁵⁹ McCreary District proposes to decrease Regulatory Commission expense by \$1,184 to reflect the PSC Assessment for only the gross operating revenues of the water division.⁶⁰ Using its Pro Forma Operating revenues and the current PSC Assessment rate, Commission Staff calculates a pro forma Regulatory Commission expense of \$8,300 for a decrease of \$937 as shown in the table below.

	Amount
Normalized Operating Revenue - Water	\$ 4,269,334
Multiplied by: PSC Assessment Fee Rate	<u>\$ 0.0020</u>
Normalized PSC Assessment	\$ 8,539
Less: Reported PSC Assessment	<u>(9,476)</u>
Pro Forma Adjustment	<u>(937)</u>

⁵⁹ *Id.*, Exhibit C, Schedule of Adjusted Operations – Water Utility Ref. I and Adjusted Operations – Water Utility References, Ref. I.

⁶⁰ *Id.*

(N) Depreciation. McCreary District proposed to decrease its test year Depreciation expense of \$1,092,601 by \$164,038 for a pro forma Depreciation expense of \$928,563.⁶¹ McCreary District explained that it decreased Depreciation expense by \$162,263 to reflect the mid-point of the useful life ranges for water mains and storage tanks as contained in the NARUC Study and is proposing to allocate \$1,775 of the Depreciation expense for its new office building to the sewer division.⁶²

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.

In responding to a Commission Staff interrogatory, McCreary District calculated a pro forma Depreciation expense of \$1,071,396 for its water division by applying the midpoint depreciation life of the average service life ranges in the NARUC Study for each asset category reported in its depreciation schedule. Upon its review of McCreary District's revised depreciation schedule, Commission Staff notes that McCreary District's adjusted depreciation is reasonable and the lives used are at the midpoint of the NARUC Study range for each asset category. Commission Staff is decreasing McCreary District's depreciation by \$21,205.⁶³

⁶¹ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility, Ref. K.

⁶² *Id.*, Schedule of Adjusted Operations – Water Utility References, Ref. K.

⁶³ \$1,071,396 (Recalculated Depreciation expense) - \$1,092,601 (Test-Year Depreciation expense)= \$21,205.

(O) Payroll Taxes. McCreary District proposed to decrease its test year Payroll Tax expense of \$75,523 by \$3,428 to a pro forma level of \$72,094 to reflect adjusted test period wages and to reflect the payment of Federal Insurance Contributions Act (FICA) taxes on water district commissioner salaries.⁶⁴ Commissioners are not employees of district, but rather they are classified as independent contractors. As an independent contractor the Commissioners are responsible to pay 100 percent of their Self-Employment Tax (SE tax)⁶⁵ and are not subject to income tax (federal, state, or local) withholdings from their fees. Accordingly, Commission Staff did not include McCreary District's Commissioner fees in its calculation of the pro forma FICA expense.

Using the pro forma Employee Salaries and Wages expense for the water division of \$798,185 and the current FICA rate of 7.65 percent, Commission Staff calculated a pro forma FICA expense of \$61,061.⁶⁶ Accordingly, Commission Staff decreased McCreary District's payroll tax expense by \$14,462.⁶⁷

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.⁶⁸ This method allows for recovery

⁶⁴ Application, Exhibit C, Schedule of Adjusted Operations – Water Utility, Ref. I and Schedule of Adjusted Operations – Water Utility References, Ref. I.

⁶⁵ SE tax is similar to the FICA taxes. With FICA taxes, half of the taxes are withheld from the employee paycheck and the other half is paid by the employer. But with SE tax, the Commissioner is responsible to pay the entire tax.

⁶⁶ \$789,185 (Pro Forma Employee Salaries and Wages expense) x 7.65% (FICA Rate) = \$61,061.

⁶⁷ \$61,061 (Pro Forma Payroll Tax) - \$75,523 (Reported Test-Year Payroll Tax) = \$14,462.

⁶⁸ See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020); see also Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

of (1) cash-related pro forma operating expenses; (2) 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 McCreary District's and Commission Staff's calculations of the overall revenue requirement and the required revenue increase using the DSC method is shown below:

	McCreary District	Commission Staff
Pro Forma Operating Expenses	\$ 3,649,403	\$ 3,598,477
Plus: Average Annual Debt Service	713,442	713,442
Debt Service Coverage	<u>142,688</u>	<u>142,688</u>
Overall Revenue Requirement	4,505,533	4,454,607
Less: Other Water Revenues	(139,711)	(149,642)
Interest Income	<u>(11,152)</u>	<u>(11,152)</u>
Revenue Required - Water Sales	4,354,670	4,293,813
Less: Normalized Revenue - Water	<u>(4,006,165)</u>	<u>(4,125,415)</u>
Required Revenue Increase	<u>\$ 348,504</u>	<u>\$ 168,398</u>
Percentage Increase	<u>8.70%</u>	<u>4.08%</u>

Average Annual Principal and Interest Payments.

At the time of Commission Staff's review, McCreary District had three outstanding loans from the Kentucky Rural Water Finance Corporation (KRWFC),⁶⁹ an outstanding

⁶⁹ See KRWFC Series 2012D - Case No. 2012-00172, *Application Of McCreary County Water District To Issue Securities in the Approximate Principal Amount of \$4,790,000 for the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC May 5, 2012); Series 2013 KRWFC Refunding – 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); and KRWFC Series 2020E – Case No. 2020-00151, *Electronic Application of the McCreary County Water District to Issue Securities in the Approximate Principal Amount of \$1,702,000 for the Purpose of Refunding Certain Outstanding Obligations of the District and Refinancing of a Short Term Obligation Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC June 26, 2020).

loan from the Kentucky Infrastructure Authority (KIA),⁷⁰ an outstanding loan from the BB&T bank,⁷¹ and four bond issuances from the U.S. Department of Agriculture's Rural Development (RD).⁷² In calculating its revenue requirement, McCreary District used an average annual debt service of \$713,442 and a 0.2 DSC of \$142,688.⁷³ Upon its review of McCreary District's debt amortization schedules, Commission Staff verified that McCreary District's calculations are correct.

⁷⁰ See KIA Loan F04-3 – Case No. 2003-00007, *Application of The McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct an Improvements Project and to Issue Securities in The Approximate Amount of \$1,510,000 to Finance a Portion of Said Project Pursuant to KRS 278.020, 278.300 and 807 KAR 5:001* (Ky. PSC Feb. 7, 2003).

⁷¹ See BB&T Loan – Case No. 2018-00038, *Electronic Application of McCreary County Water District for Authorization to Execute Lease-Purchase Agreement and Related Relief* (Ky. PSC June 28, 2018) and Case No. 2018-00278, *Electronic Motion of McCreary County Water District to Amend Commission's Order of June 28, 2018 in Case No. 2018-00038* (Ky. PSC Aug. 27, 2018).

⁷² See RD 2012A Series Bonds and RD 2012B Series Bonds, Case No. 2012-00053, *Application of McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC March 15, 2012); RD 2015 Series Bonds, Case No. 2015-00053, *Application of the McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC March 6, 2015); and RD 2020 Series A Bonds, Case No. 2019-00246, *Application of the McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant To KRS 278.023* (Ky. PSC Aug. 2, 2019).

⁷³ Application, Exhibit D, Revenue Requirement Calculation Debt Service Coverage Method.

Signatures

/s/Eddie Beavers

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

/s/ Mark Frost

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

APPENDIX A

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00301 DATED MAR 11 2022

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

Monthly Water Rates

Residential & Non-Residential Customers

First	2,000 Gallons	\$	23.42	Minimum Bill
Over	2,000 Gallons		.00963	Per Gallon

Federal Correctional Facility

First	1,950,000 Gallons	\$	14,795.49	Minimum Bill
Over	1,950,000 Gallons		.00759	Per Gallon

Cumberland Falls State Park

First	600,000 Gallons	\$	4,552.46	Minimum Bill
Over	600,000 Gallons		.00759	Per Gallon

Whitley County Water District	\$.00759	Per Gallon
Oneida, Tennessee		.00759	Per Gallon
Fibrotex USA		.00759	Per Gallon
Pine Knot Job Center		.00759	Per Gallon
McCreary County Housing Authority		.00759	Per Gallon

Nonrecurring Charges

Meter Re-Read Charge	\$	12.50
Meter Test Charge		12.50
Reconnection Charge		12.50
Returned Check Charge – Water Customers Only		8.50
Returned Check Charge – Water & Sewer Customers		4.25

APPENDIX B

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00301 DATED MAR 11 2022

Pro Forma Employee Salaries and Wages

Emp. No.	Allocations		Status	Job Title	2021 Regular	2020 Hours			Total	Employee Salary Allocations	
	Water	Sewer			Wage Rates	Regular	Holiday	Overtime		Water	Sewer
1	100.00%	0.00%	FT	Dist Lineman	\$ 11.80	2,080.00	80.00	148.00	\$ 28,108	\$ 28,108	\$ -
2	100.00%	0.00%	FT	Dist Lineman	\$ 13.80	2,080.00	80.00	138.00	32,665	32,665	0
4	100.00%	0.00%	FT	Dist Supervisor/Machine Op	\$ 20.80	2,080.00	80.00	159.50	49,904	49,904	0
5	100.00%	0.00%	PT	Dist Lineman	\$ 10.00	40.00	0.00		400	400	0
6	98.10%	1.90%	FT	Dist Lineman	\$ 15.85	2,080.00	80.00	151.50	37,838	37,119	719
7	98.20%	1.80%	FT	Meter Reader/Dist Lineman	\$ 12.00	2,080.00	64.00	49.50	26,619	26,140	479
8	84.55%	15.45%	PT	Office Customer Service	\$ 12.30	1,567.00	72.00		20,160	17,045	3,115
9	84.55%	15.45%	PT	Office Customer Service	\$ 9.50	293.50	40.00		3,168	2,679	489
10	100.00%	0.00%	FT	Water Treatment Plant Op	\$ 22.27	2,080.00	80.00	106.50	51,662	51,662	0
12	84.55%	15.45%	FT	Office Customer Service	\$ 20.63	2,080.00	80.00	31.50	45,535	38,500	7,035
13	100.00%	0.00%	FT	Water Treatment Plant Op	\$ 11.80	2,080.00	80.00	153.50	28,205	28,205	0
14	100.00%	0.00%	FT	Water Treatment Plant Op	\$ 22.80	2,080.00	80.00	340.00	60,876	60,876	0
15	100.00%	0.00%	FT	Dist Lineman/Mechanic	\$ 13.80	2,080.00	80.00	206.50	34,083	34,083	0
16	100.00%	0.00%	PT	Water Treatment Plant Op	\$ 16.30	425.50	80.00		8,240	8,240	0
18	84.55%	15.45%	FT	Office Customer Service	\$ 13.30	2,080.00	80.00	1.00	28,748	24,306	4,442
19	84.55%	15.45%	FT	Administrative Assistant	\$ 22.92	2,080.00	80.00	7.50	49,766	42,077	7,689
21	90.00%	10.00%	FT	Dist Lineman	\$ 25.93	2,080.00	80.00	145.00	61,648	55,483	6,165
22	84.55%	15.45%	FT	Office Manager	\$ 24.68	2,080.00	80.00	301.00	64,451	54,493	9,958
23	71.82%	28.18%	FT	Manager/Supt					116,258	83,496	32,762
24	100.00%	0.00%	FT	Dist Lineman	\$ 15.80	2,080.00	64.00	54.00	35,155	35,155	0
26	100.00%	0.00%	PT	Dist Lineman	\$ 11.00	845.50	48.00	34.50	10,398	10,398	0
27	100.00%	0.00%	FT	Water Treatment Plant Op	\$ 20.45	2,080.00	80.00	181.50	49,740	49,740	0
28	0.00%	100.00%	FT	Water Treatment Plant Op	\$ 13.80	2,080.00	80.00	119.00	32,271	0	32,271
29	0.00%	100.00%	FT	Wastewater Treatment Op	\$ 22.26	2,080.00	80.00	156.00	53,291	0	53,291
30	0.00%	100.00%	FT	Wastewater Treatment/Col	\$ 22.26	2,080.00	80.00	64.00	50,219	0	50,219
31	50.00%	50.00%	FT	Wastewater Supervisor	\$ 23.95	2,080.00	80.00	86.00	54,822	27,411	27,411
32	0.00%	100.00%	FT	Wastewater Collection	\$ 15.30	2,080.00	72.00	37.50	33,787	0	33,787
33	0.00%	100.00%	FT	Wastewater Collection	\$ 19.35	2,080.00	64.00	64.00	43,344	0	43,344
Totals									\$ 1,111,361	\$ 798,185	\$ 313,176
Pro Forma Employee Salaries & Wages expense - Water										\$ 798,185	\$ 313,176
Less: Test-Year Employee Salaries & Wages expense - Water										(877,486)	(251,748)
Pro Forma Adjustment										<u>\$ (79,301)</u>	<u>\$ 61,428</u>

APPENDIX C

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00301 DATED MAR 11 2022

Pro Forma Employee Pensions and Benefits

Emp. No.	Allocations		Job Title	Health Plan	Annual Emp. Health & Dental Prem.		Health Ins. Prem.			Employee Pension & Benefit Allocations			Pro Forma Salaries & Wages		CERS 26.95%		Allocated CRS		Pro Forma Emp. Benefits sewer	
	Water	Sewer			2021 Health Ins. Prem.	Dental Ins. Prem.	Single 78%	Family 66%	Dental 60%	Vision	Life	Total	Water	Sewer	Total	Water	Sewer	Water		Sewer
							Parent Plus 66%	Couple 66%												
1	100.00%	0.00%	Dist Lineman	Couple	\$ 12,875	\$ 490	\$ 8,498	\$ 294	\$ 157	\$ 66	\$ 9,015	\$ 9,015	\$ -	\$ 28,108	\$ 7,575	\$ 7,575	\$ -	\$ -	\$ -	
2	100.00%	0.00%	Dist Lineman	Family	17,780	952	11,735	571	243	66	12,615	12,615	0	32,665	8,803	8,803	0	0	0	
4	100.00%	0.00%	Dist Supervisor/Machine Op	Parent Plus	11,036	475	7,284	285	165	66	7,800	7,800	0	49,904	13,449	13,449	0	0	0	
5	100.00%	0.00%	Dist Lineman	NONE	0	0	0	0	0	0	0	0	0	400	108	108	0	0	0	
6	98.10%	1.90%	Dist Lineman	Single	6,131	233	4,782	140	83	66	5,071	4,975	96	37,838	10,197	10,003	194	290	290	
7	98.20%	1.80%	Meter Reader/Dist Lineman	Single	6,131	233	4,782	140	83	66	5,071	4,980	91	26,619	7,174	7,045	129	220	220	
8	84.55%	15.45%	Office Customer Service	NONE	0	0	0	0	0	0	0	0	0	20,160	5,433	4,594	839	839	839	
9	84.55%	15.45%	Office Customer Service	NONE	0	0	0	0	0	0	0	0	0	3,168	854	722	132	132	132	
10	100.00%	0.00%	Water Treatment Plant Op	Family	17,780	952	11,735	571	243	66	12,615	12,615	0	51,662	13,923	13,923	0	0	0	
12	84.55%	15.45%	Office Customer Service	NONE	0	233	0	140	83	66	289	244	45	45,535	12,272	10,376	1,896	1,941	1,941	
13	100.00%	0.00%	Water Treatment Plant Op	SINGLE	6,131	233	4,782	140	83	66	5,071	5,071	0	28,205	7,601	7,601	0	0	0	
14	100.00%	0.00%	Water Treatment Plant Op	Family	17,780	952	11,735	571	243	66	12,615	12,615	0	60,876	16,406	16,406	0	0	0	
15	100.00%	0.00%	Dist Lineman/Mechanic	Single	6,131	233	4,782	140	83	66	5,071	5,071	0	34,083	9,185	9,185	0	0	0	
16	100.00%	0.00%	Water Treatment Plant Op	NONE	0	0	0	0	0	0	0	0	0	8,240	2,221	2,221	0	0	0	
18	84.55%	15.45%	Office Customer Service	Family	17,780	952	11,735	571	243	66	12,615	10,666	1,949	28,748	7,748	6,551	1,197	3,146	3,146	
19	84.55%	15.45%	Administrative Assistant	Couple	12,875	490	8,498	294	157	66	9,015	7,622	1,393	49,766	13,412	11,340	2,072	3,465	3,465	
21	90.00%	10.00%	Dist Lineman	Couple	12,875	490	8,498	294	157	66	9,015	8,114	902	61,648	16,614	14,953	1,661	2,563	2,563	
22	84.55%	15.45%	Office Manager	Single	6,131	233	4,782	140	83	66	5,071	4,288	783	64,451	17,370	14,686	2,684	3,467	3,467	
23	71.15%	28.85%	Manager/Supt	Family	17,780	475	11,735	285	165	66	12,251	8,717	3,534	116,258	31,332	22,293	9,039	12,573	12,573	
24	100.00%	0.00%	Dist Lineman	Single	6,131	233	4,782	140	83	66	5,071	5,071	0	35,155	9,474	9,474	0	0	0	
26	100.00%	0.00%	Dist Lineman	NONE	0	0	0	0	0	0	0	0	0	10,398	2,802	2,802	0	0	0	
27	100.00%	0.00%	Water Treatment Plant Op	Family	17,780	952	11,735	571	243	66	12,615	12,615	0	49,740	13,405	13,405	0	0	0	
28	0.00%	100.00%	Water Treatment Plant Op	Single	6,131	233	4,782	140	83	66	5,071	0	5,071	32,271	8,697	0	8,697	13,768	13,768	
29	0.00%	100.00%	Wastewater Treatment Op	Single	6,131	233	4,782	140	83	66	5,071	0	5,071	53,291	14,362	0	14,362	19,433	19,433	
30	0.00%	100.00%	Wastewater Treatment/Col	Family	17,780	952	11,735	571	243	66	12,615	0	12,615	50,219	13,534	0	13,534	26,149	26,149	
31	0.00%	100.00%	Wastewater Supervisor	Parent Plus	11,036	475	7,284	285	165	66	7,800	0	7,800	54,822	14,775	0	14,775	22,575	22,575	
32	0.00%	100.00%	Wastewater Collection	Single	6,131	233	4,782	140	83	66	5,071	0	5,071	33,787	9,106	0	9,106	14,177	14,177	
33	0.00%	100.00%	Wastewater Collection	Couple	12,875	490	8,498	294	157	66	9,015	0	9,015	43,344	11,681	0	11,681	20,696	20,696	
					<u>\$ 253,211</u>	<u>\$ 11,427</u>	<u>\$ 165,245</u>	<u>\$ 6,857</u>	<u>\$ 3,411</u>	<u>\$ 1,518</u>	<u>\$ 185,529</u>	<u>\$ 132,094</u>	<u>\$ 53,436</u>	<u>\$ 1,111,361</u>	<u>\$ 299,513</u>	<u>\$ 207,515</u>	<u>\$ 91,998</u>	<u>\$ 145,434</u>		
Pro Forma Employee Pension & Benefit Expense - Water													\$ 132,094		\$ 207,515		\$ 145,434			
Less: Test-Year Employee Pension & Benefit Expense - Water													(190,329)		(446,193)		(109,734)			
Pro Forma Adjustment													<u>\$(58,235)</u>		<u>\$(238,678)</u>		<u>\$ 35,700</u>			

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