

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MARION)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2021-00394
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of November 17, 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 November 17, 2021 Order, Marion County Water District (Marion 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 Marion 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 02 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
MARION COUNTY WATER DISTRICT
CASE NO. 2021-00394

Marion County Water District (Marion District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 6,172 customers that reside in Marion and Nelson counties, Kentucky.¹ On October 27, 2021, Marion District tendered an application, pursuant to 807 KAR 5:076, requesting to adjust its water service rates and its application was deemed filed as of October 27, 2021. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated November 17, 2021. Commission Staff (Staff) issued its first round of formal discovery on December 3, 2021, and a second round of formal discovery on January 4, 2022. The Commission, on its own motion, revised the due date in the procedural schedule for Staff's Report to March 3, 2022.

Staff notes that in its 2020 Annual Report Marion District reported a water loss of 19.6695 percent.² Commission regulation 807 KAR 5:066(6)(3) states that for rate making purposes a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. At a

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

² *Id.* at 57.

19.6695 percent water loss, the annual cost to Marion District is \$399,909.³ The total annual cost to Marion District for water loss above 15 percent is \$94,824 as explained in adjustment (H) below.

To comply with the requirements of 807 KAR 5:076, Section 9,⁴ Marion District used the calendar year ended December 31, 2020, as the basis for its application. Using its pro forma test-year operations, Marion District determined that a revenue increase of \$783,405 or 25.32 percent over test-year normalized revenues of \$3,877,019 was warranted.⁵ The rates requested by Marion District would increase the monthly bill of a typical customer using 4,154 gallons per month by \$9.12 from \$36.03 to \$45.15 or approximately 25.31 percent.⁶

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

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	Purchased Water	\$ 1,997,847
	Purchased Power for Pumping	<u>35,242</u>
	Total Cost of Water	2,033,089
	Water Loss	<u>19.67%</u>
	Total Cost of Water Loss	<u>\$ 399,909</u>

⁴ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant’s annual report for the immediate past year.

⁵ Application, Exhibit D, Revenue Requirements Calculation.

⁶ *Id.*, Exhibit K, Customer Notice.

were representative of normal operations. Known and measurable⁷ changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Staff's findings are summarized in this report. Ariel Miller reviewed the calculation of Marion District's Overall Revenue Requirement. Elizabeth Stefanski reviewed Marion District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Staff found that Marion District's required revenue from rates is \$3,676,198 to meet the Overall Revenue Requirement of \$3,819,587, and that a \$582,584 revenue increase, or 18.83 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. In the application, Marion District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 25.31 percent. Marion District has not performed a cost of service study (COSS). Marion District stated that it did not consider filing a COSS with the current rate

⁷ Commission regulation 807 KAR 5:076, Section 9 sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *The Application of Hardin County Utilities 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 Utilities 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).

application as there were no material changes in its system and that Marion District would consider preparing a new COSS if material changes in the District's system were to occur.⁸

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, Staff followed the method proposed by Marion District and allocated the \$582,584 revenue increase across the board to Marion District's monthly water service rates.

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Staff, and will produce sufficient revenues from water sales to recover the \$3,676,198, Revenue Required from Rates, an approximate 18.76 percent increase. These rates will increase a typical residential customer's monthly water bill for the Marion District's customers from \$36.03 to \$42.82, an increase of \$6.79, or approximately 18.84 percent.⁹

3. Nonrecurring Charges. Following the Commission's recent decisions,¹⁰ Staff has reviewed Marion District's nonrecurring charges. The Commission found that as district personnel are currently paid during normal business hours, estimated labor

⁸ Marion District's Response to Commission Staff's First Request for Information (filed Dec.17, 2021) (Staff's First Request), Item 5.

⁹ The typical customer uses approximately 4,154 gallons per month.

¹⁰ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment*, (Ky. PSC Dec. 30, 2020).

costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Marion District provided updated cost justification information for the Nonrecurring Charges that are listed in its tariff.¹¹ Staff reviewed the cost justification information provided by Marion District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those charges that occur during normal business hours. Staff also adjusted After Hours charges by removing Office/Clerical Labor Costs as the office labor would occur during normal business hours. Staff adjusted the mileage rate to the current allowable mileage rate by the Internal Revenue Service of \$0.585 per mile.¹² Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	
Connection Turn-On	\$ 19.00
Connection Turn-On After Hours	121.00
Reconnection	16.00
Reconnection After Hours	121.00
Field Collection	19.00
Meter Reading Recheck	19.00
Meter Test Request	19.00
Returned Check Charge	3.00
Broken Meter Lock	53.00
Meter Valve Replacement	59.00
Service Call/Investigation	19.00
Service Call/Investigation After Hours	121.00
5/8 x 3/4 Inch Water Tap On	967.00

Marion District provided the Average Meter Connection Expense Cost Justification for a 5/8 X 3/4 Inch meter.¹³ Marion District's Cost Justification Form indicates that it should increase its meter connection fee by \$102 from \$865 to \$967 to reflect the current

¹¹ Marion District's Response to Staff's First Request, Item 8.

¹² <https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2022>.

¹³ Marion District's Response to Staff's First Request, Item 6c.

cost to install a meter. Staff recommends that an increase is reasonable to recover the increased cost to install a 5/8 X 3/4 Inch meter.

4. Rate Case Expense. Staff notes that Marion District did not make a pro forma adjustment to amortize any costs attributable to the preparation of its application for rate adjustment. In its response to the Staff Report, Marion District should identify any additional costs that were incurred in preparation for this case.

PRO FORMA OPERATING STATEMENT

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

	Test Year	Adjustment	(Ref.)	Pro Forma
Operating Revenues				
Sales of Water	\$ 2,978,895	114,719	(A)	\$ 3,093,614
Other Water Revenues	43,371	54,907	(B)	
	<u> </u>	<u>(11,645)</u>	(C)	<u>86,633</u>
Total Operating Revenues	<u>3,022,266</u>	<u>157,981</u>		<u>3,180,247</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	360,443	33,951	(D)	394,394
Salaries and Wages - Commissioners	55,803			55,803
Employee Pensions and Benefits	306,291	(9,529)	(E)	
		(137,716)	(F)	159,046
Purchased Water	1,918,514	79,333	(G)	
		(93,299)	(H)	1,904,548
Purchased Power for Pumping	35,242	(1,525)	(H)	33,717
Chemicals				-
Materials and Supplies	186,203			186,203
Contractual Services	33,154	9,000	(I)	42,154
Rent				-
Transportation Expense	20,995			20,995
Insurance	33,953			33,953
Regulatory Commission Expense				-
Bad Debt Expense	3,178			3,178
Miscellaneous Expense	33,605			33,605
	<u> </u>	<u> </u>		<u> </u>
Total Operation and Maintenance Expenses	2,987,381	(153,736)		2,867,596
Taxes Other Than Income	39,480	2,597	(D)	42,077
Depreciation	496,808			496,808
Total Operating Expenses	<u>3,523,669</u>	<u>(151,139)</u>		<u>3,406,481</u>
Net Operating Income	(501,403)	309,120		(226,234)
Interest Income	13,278			13,278
Nonutility Income	43,478			43,478
	<u> </u>	<u> </u>		<u> </u>
Income Available to Service Debt	<u>\$ (444,647)</u>	<u>\$ 309,120</u>		<u>\$ (169,478)</u>

(A) Billing Analysis Adjustment. In its application, Marion District made an adjustment of \$114,719 to Metered Water Sales and provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application, with the total metered water sales revenue reported as \$3,093,614.¹⁴ This adjustment was made for the test year, in which, Marion District increased its service rates through a purchase water adjustment (PWA), due to an increase from its supplier.¹⁵ Marion District provided usage data,¹⁶ which Staff used to calculate a normalized revenue amount, including the PWA increase for a normalized revenue of \$3,093,614. Therefore, Staff accepted Marion District's adjustment to retail metered sales of \$114,719.

(B) Late Payment Charges. In its application, Marion District made an adjustment of \$54,907 to Forfeited Discounts to account for the moratorium regarding the collection of late payment fees due to the COVID-19 pandemic. Marion District proposed to normalize the revenue from Forfeited Discounts using a three-year average of the reported income from late fees in the years 2017, 2018, and 2019. Staff verified the data provided¹⁷ and accept the adjustment of \$54,907 as reasonable.

(C) Nonrecurring Charges. In its application, Marion District made an adjustment of \$11,590 to Miscellaneous Service Revenues to account for the above mentioned moratorium and to normalize the revenue received from disconnections in the

¹⁴ Application, Exhibit C, Schedule of Adjusted Operations.

¹⁵ Case No. 2021-00306, *Electronic Purchased Water Adjustment Filing of Marion County Water District* (Ky. PSC Aug. 11, 2021).

¹⁶ Marion District's Response to Staff's First Request, Item 10.

¹⁷ Application, Exhibit C, Schedule of Adjusted Operations, Adjustment B.

test year.¹⁸ Marion District proposed to use a three-year average of the reported income from Miscellaneous Service Revenues in the years 2017, 2018, and 2019. Staff does not agree with this adjustment as disconnection fees are not separated from other Miscellaneous Service Revenue in the adjustment and do not necessarily create a typical revenue stream. As discussed above, Staff adjusted certain nonrecurring charges using the updated Cost Justification Sheets.¹⁹ Staff's adjustments to the Nonrecurring Charges results in a decrease to Total Operating Revenue and an increase to the total revenue requirement of \$11,645 as shown below.²⁰

	Number of Occurrences	Current Charge	Revised Charge	Utility Pro Forma	Pro Forma Adjustment	Pro Forma
Connection Turn-On Charge	450	35	19	15,750	(7,200)	8,550
Reconnection Fee	208	35	16	7,280	(3,952)	3,328
Meter Test Request	1	80	19	80	(61)	19
Returned Check Fee	19	25	3	475	(418)	57
Broken Meter Lock Fee	2	60	53	120	(14)	106
				\$ 23,705	\$ (11,645)	\$ 12,060

(D) Salaries and Wages – Employees. In its application, Marion District proposed to increase Salaries and Wages of \$33,951 and Taxes Other than Income of \$3,395 to reflect increases in pay rates and to normalize wages for an employee that was hired in the calendar year 2021.²¹ Staff has reviewed the corresponding attachment that

¹⁸ *Id.*

¹⁹ Marion District's Response to Staff's First Request, Item 8.

²⁰ Marion District's Response to Staff's First Request, Item 8 and Marion District's Response to Commission Staff's Second Request for Information (filed Jan. 20, 2022) (Staff's Second Request), Item 5.

²¹ Application, Exhibit C, References, Item C.

was provided with Marion District’s adjustment²² and agrees that the proposed increase fairly represents total Salaries and Wages expense going forward. However, Staff disagrees with the proposed increase to payroll taxes of \$3,395. Staff recalculated payroll taxes to reflect the current IRS tax rate of 7.65 percent.²³ Accordingly, Staff increased pro forma Salaries and Wages of \$33,951 and corresponding Taxes Other Than Income of \$2,597 for payroll taxes.

(E) Employee Pensions and Benefits. In its application, Marion District proposed to decrease Employee Pensions and Benefits by \$9,529 based on the net result of an increase to health insurance premiums experienced subsequent to the test period, and to reduce premiums paid by Marion District by the Bureau of Labor Statistics national average for single coverage based on recent Commission decisions regarding this issue.²⁴ Staff has examined the workpapers²⁴ provided in response to Staff’s First Request and agrees with the calculation as proposed by Marion District.²⁵ Accordingly, Staff decreased Employee Pensions and Benefits by \$9,529 in the Pro Forma calculation.

(F) Governmental Accounting Standards Board Statement No. 68. As a participating member of the County Employees’ Retirement System (CERS), Marion District is required to contribute a percentage of its employee wages to CERS. In the

²² *Id.*, Exhibit C.1.

²³

Adjustment to Salaries and Wages	\$ 33,951
Times: Payroll Tax Rate	<u>7.65%</u>
Payroll Tax Adjustment	<u><u>\$ 2,597</u></u>

²⁴ *Id.*, Exhibit C, References, Item D.

²⁵ Marion District’s Response to Staff’s First Request, Item 3.

fiscal year beginning July 1, 2021, the CERS contribution rate was 26.95 percent.²⁶ The CERS pension expense Marion District reported in the test year conformed to the requirements of the Governmental Accounting Standards Board Statement No. 68 and No. 75 (GASB 68 and 75).

In its application, Marion District proposed to decrease Employee Pensions and Benefits by \$137,716 to normalize expenses related to CERS contributions to the amount actually paid by Marion District in the test period and to remove the effects of the journal entries made to conform to the requirements of GASB 68 and 75.²⁷

In Case No. 2016-00163,²⁸ Staff discussed in great detail how reporting requirements for GASB 68 would affect a utility's income statement and balance sheet. In that proceeding, Staff found that the annual pension expense should be equal to the amount of a district's contributions to CERS, which historically have been fairly constant.²⁹ Consistent with Staff's previous practice, Staff agrees with the proposal to reduce expenses related to GASB 68 and 75 and reduced Employee Pensions and Benefits expense by \$137,716.

(G) Purchased Water Adjustment. In its application, Marion District proposed to increase its Purchased Water expense of \$79,333 to reflect an increase to its wholesale purchased water rates effective on September 15, 2020.³⁰ Staff agrees that this amount

²⁶ Kentucky Retirement Systems, Contribution Rates. ([Contribution Rates - Kentucky Public Pensions Authority](#))

²⁷ Application, Exhibit C, References, Item D.

²⁸ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Aug 11, 2016), Staff Report on Marion County Water District at 11–27.

²⁹ *Id.* at 26.

³⁰ Application, Exhibit C, References, Item E.

represents the normalized increase to Marion District's annual water supply cost and therefore increased pro forma Purchased Water \$79,333.

(H) Water Loss. Marion District's test-year water loss was 19.67 percent.³¹ Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes unless the Commission finds an alternative level is reasonable. In its application, Marion District proposed to reduce Purchased Water expense \$93,299 to reflect the limitation stated in the regulation.³² Staff agrees that the regulation has been properly applied by Marion District in its proposal for purchased water but calculated a further reduction to purchased power of \$1,525³³ that would also apply to the regulation. Accordingly, Staff reduced pro forma Purchased Water expense by \$93,299 and Purchased Power expense by \$1,525.

(I) Contractual Services. In its application, Marion District proposed to increase Contractual Services by \$9,000 to reflect the normalization of its contract with United Systems for its billing software that became effective July 1, 2020.³⁴ Staff reviewed the contract³⁵ and believes that the proposed pro forma adjustment is consistent

³¹ *Id.*

³² *Id.*

³³

Purchased Power for Pumping	\$	32,653
Percentage Disallowed		<u>4.67%</u>
Disallowed Purchased Power	<u>\$</u>	<u>1,525</u>

³⁴ Application, Exhibit C, References, Item F.

³⁵ Marion District's Response to Staff's Second Request, Item 1.

with the amounts stated in the contract. Accordingly, Staff increased pro forma Contractual Services by \$9,000.

OVERALL REVENUE REQUIREMENT AND
REQUIRED REVENUE INCREASE

By applying a debt service coverage (DSC) method, Staff determined Marion District's Overall Revenue Requirement to be \$3,819,587. Staff calculated a revenue increase of \$582,584, or 18.83 percent, is necessary to generate the Overall Revenue Requirement. A comparison of Marion District's and Staff's calculation of the Overall Revenue Requirement and the Required Revenue Increase using a DSC method is shown below. Staff notes that Marion District did not include an Other Operating Revenues recorded for the test period, or in its proposed Pro Forma in its calculation of the Revenue Requirement. Therefore, Staff included this information in its calculation.

	Marion District	Staff	
Pro Forma Operating Expenses	\$3,407,157	\$ 3,406,481	
Plus: Average Annual Principal and Interest Payments	344,255	344,255	(1)
Additional Working Capital	<u>68,851</u>	<u>68,851</u>	(2)
Overall Revenue Requirement	3,820,263	3,819,587	
Less: Other Operating Revenue		(86,633)	
Interest Income	13,278	(13,278)	
Nonutility Income	<u>43,478</u>	<u>(43,478)</u>	
Revenue Required from Rates	3,877,019	3,676,198	
Less: Pro Forma Present Rate Service Revenues	<u>(3,093,614)</u>	<u>(3,093,614)</u>	
Required Revenue Increase	<u>\$ 783,405</u>	<u>\$ 582,584</u>	
Percentage Increase	<u>25.32%</u>	<u>18.83%</u>	

1. Average Annual Principal and Interest Payments. At the time of Staff's review, Marion District has one outstanding bond payable to the United States

Department of Agriculture Rural Development (RD), two loans payable to the Kentucky Infrastructure Authority, and two loans payable to Farmers National Bank. In its application, Marion District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2022 through 2026. Staff agrees with the methodology and calculation that Marion District proposes and therefore included principal and interest payments of \$344,255 in the calculation of the revenue requirement.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Marion District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its long term debt with the RD at the time of its application. RD requires that Marion District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission's historic practice, \$68,851 is included in the revenue requirement.

Signatures

/s/Ariel Miller

Prepared by: Ariel Miller
Revenue Requirements Branch
Division of Financial Analysis

/s/Elizabeth Stefanski

Prepared by: Liz Stefanski
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00394 DATED MAR 02 2022

The following rates and charges are prescribed for the customers in the area served by Marion 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

<u>5/8- x 3/4-Inch Meter</u>	\$ 8.84 Minimum Bill
<u>1-Inch Meter</u>	\$ 19.26 Minimum Bill
<u>2-Inch Meter</u>	\$ 30.52 Minimum Bill
<u>3-Inch Meter</u>	\$ 48.40 Minimum Bill
<u>4-Inch Meter</u>	\$ 76.77 Minimum Bill
<u>6-Inch Meter</u>	\$ 193.21 Minimum Bill
<u>Water Charge</u>	
All usage	\$ 0.00818 Per Gallon

Nonrecurring Charges

5/8 Inch X 3/4 Inch Meter Connection Charge	\$ 967.00
Connection/Turn-on	19.00
Connection / Turn-on After Hours	121.00
Reconnection	16.00
Reconnection After Hours	121.00
Field Collection	19.00
Meter Reading Recheck	19.00
Meter Test Request	19.00
Returned Check	3.00
Broken Meter Lock	53.00
Meter Valve Replacement	59.00
Service Call / Investigation	19.00
Service Call / Investigation After Hours	121.00

*Cheryl Sullivan
Marion County Water District
P. O. Box 528
Lebanon, KY 40033

*James L Mudd Jr.
Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KENTUCKY 40342

*Marion County Water District
1835 Campbellsville Road
P. O. Box 528
Lebanon, KY 40033

*Toby Spalding
Marion County Water District
P. O. Box 528
Lebanon, KY 40033