

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GREEN-)	CASE NO.
TAYLOR WATER DISTRICT FOR A RATE)	2022-00246
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of December 13, 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 September 2, 2022 Order, Green-Taylor Water 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 Green-Taylor 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 FEB 24 2023

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).

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COMMISSION STAFF'S REPORT
ON GREEN-TAYLOR WATER DISTRICT

Green-Taylor Water District (Green-Taylor District), a water district organized pursuant to KRS Chapter 74, provides water service to approximately 5,252 residential, and commercial customers in Adair, Green, Metcalf, and Taylor counties Kentucky.¹ Green-Taylor District also provides wholesale water service to the city of Greensburg and Larue County Water District.²

In the final Order for Case No. 2021-00233,³ Green-Taylor District was ordered to file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment (ARF) pursuant to 807 KAR 5:076 by August 13, 2022. On August 12, 2022, Green-Taylor District filed its application to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076, and it was accepted as filed.

¹ *Annual Report of Green-Taylor District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

² 2021 Annual Report at 56.

³ Case No. 2021-00233, *Electronic Application of the Green-Taylor Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct and finance a Water System Improvements Project Pursuant to the Provisions of KRS 278.020, KRS 278.300 and 807 KAR 5:001* (Ky. PSC Aug. 13, 2021).

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated September 2, 2022. On December 13, 2022, the Commission, upon its own motion, amended its September 2, 2022 Order to allow Commission Staff until February 25, 2023, to complete and to issue its report. Green-Taylor District responded to four requests for information from Commission Staff.⁴

WATER LOSS

Pursuant to 807 KAR 5:066(6)(3), water loss is limited to 15.00 percent for ratemaking purposes. Commission Staff notes that Green-Taylor District reported a water loss of 13.41 percent in its 2021 Annual Report.⁵ At a 13.41 percent water loss, the total annual cost of water loss to Green-Taylor District is \$131,901, as calculated in the table below.

	Purchased Water	Purchased Power	Total
Purchased Water and Power expenses	\$ 905,344	\$ 78,273	\$ 983,617
Multiplied by: Test-Year Water Loss Percentage	13.41%	13.41%	13.41%
Total Cost of Water Loss	\$ 121,407	\$ 10,496	\$ 131,903

DISCUSSION

To comply with the requirements of 807 KAR 5:076, Section 9,⁶ Green-Taylor District used the calendar year ended December 31, 2021, as the basis for its application.⁷

⁴ Commission Staff's First Request for Information (Staff's First Request)(Issued Sept. 2, 2022) responses filed Sept. 27, 2022; Commission Staff's Second Request for Information (Staff's Second Request) (Issued Oct. 18, 2022) responses filed Nov. 11, 2022; Commission Staff's Third Request for Information (Staff's Third Request) (Issued Nov. 8, 2022) responses filed Nov. 14, 2022; and Commission Staff's Fourth Request for Information (Staff's Fourth Request) (Issued Dec. 13, 2022) responses filed Dec. 27, 2022.

⁵ 2021 Annual Report at 57.

⁶ 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.

⁷ Application at 3.

Using the Debt Service Coverage (DSC) method historically used by the Commission, its pro forma test-year operations, and its annual Debt Service payments, Green-Taylor District determined it requires a decrease in revenues from water rates of \$3,912, or 0.14 percent.⁸ Green-Taylor District is not seeking a change in rates with its current application.⁹

Pro Forma Operating Expenses	\$ 2,426,287
Plus: Average Annual Debt Service	415,108
Debt Service Coverage Requirement	<u>83,022</u>
Overall Revenue Requirement	2,924,416
Less: Other Operating Revenue	(140,192)
Income - Utility Plant Leases	(18,472)
Interest Income	(25,659)
Nonutility Income	<u>(5,351)</u>
Revenue Required from Water Sales	2,734,742
Less: Normalized Revenues from Water Sales	<u>(2,738,654)</u>
Required Revenue Increase/(Decrease)	<u>\$ (3,912)</u>
Percentage Decrease	<u>-0.14%</u>

To determine the reasonableness of Green-Taylor District’s revenue requirement calculation, Commission Staff performed a limited financial review of Green-Taylor 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 recommendations are summarized in this report. Mark Frost reviewed Green-Taylor District’s Pro Forma Operating Expenses and its Overall Revenue

⁸ Application, 4_SAO_with_Attachments.pdf, Revenue Requirements.

⁹ Application, 2_Reason_for_Application.pdf.

Requirement. Eddie Beavers reviewed Green-Taylor District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, Commission Staff found that Green-Taylor District requires an Overall Revenue Requirement of \$2,739,973. To meet the Overall Revenue Requirement, Green-Taylor District requires a \$142,716 or a 5.21 percent decrease to Pro Forma present rate revenues.

2. Monthly Water Service Rates. Green-Taylor District proposed no increase of its monthly retail and wholesale water service rates at this time. Green-Taylor District has not performed a cost of service study (COSS). Green-Taylor District stated that it did not complete a COSS at this time as there has been no material changes in the water system.¹⁰

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 \$142,716 revenue decrease evenly across the board to Green-Taylor District's monthly retail and wholesale water service rates.

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

¹⁰ Green-Taylor District's Responses to Staff's First Request, Item 10.

from water sales to recover the \$2,595,938 Revenue Required from Rates, an approximate 5.21 percent decrease. These rates will decrease a typical residential customer's monthly water bill from \$42.61 to \$40.46, a decrease of \$2.15, or approximately (5.1) percent.¹¹

3. Following the Commission's recent decisions,¹² Commission Staff has reviewed Green-Taylor 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. Commission Staff has reviewed the most recent cost justification information provided in response to Staff's First Request.¹³ Such adjustments result in the following revised Nonrecurring Charges:

Nonrecurring Charges

After Hours Charge	\$125.00
Debit Credit Card Fee	\$1.50
Meter Reread Charge	\$16.80
Meter Test Request Charge	\$62.00
Reconnection Charge	\$16.80
Return Check Charge	\$10.00
Service Charge	\$16.80

The adjustments to the Nonrecurring Charges results in a decrease to the charges and an increase to the total revenue requirement of \$55,594 as shown below.

¹¹ The typical residential customer uses approximately 4,000 gallons per month.

¹² 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).

¹³ Green-Taylor District's Responses to Staff's First Request, Item 9.

	Num.	Current Rate	Total	Revised Rate	Adj	Pro Forma
Miscellaneous Service Revenues:						
After Hours Charge	0	\$0.00	\$0	\$125.00	\$0	\$0
Debit/Credit Card	10022	\$1.50	\$15,033	\$1.50	\$0	\$15,033
Meter Reread	2102	\$25.00	\$52,550	\$16.80	(\$17,236)	\$35,314
Meter Test Charge	0	\$60.00	\$0	\$62.00	\$0	\$0
Reconnection	121	\$50.00	\$19,490	\$16.80	(\$17,457)	\$2,033
Returned Check	23	\$15.00	\$345	\$10.00	(\$115)	\$230
Service Charge	2106	\$25.00	\$56,166	\$16.80	(\$20,785)	\$35,381
Miscellaneous Service Revenues			\$143,584		(\$55,594)	\$87,990

PRO FORMA OPERATING STATEMENT

Green-Taylor District's Pro Forma Operating Statement for the ended December 31, 2021, as determined by Commission Staff, appears below.

	Test Year Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Revenue Water Sales - Retail	\$ 2,631,273	\$ 78,481	A	\$ 2,709,754
Revenue Water Sales - Wholesale	26,225	2,675	A	28,900
Other Water Revenues				
Forfeited Discounts		41,876	B	41,876
Misc. Service Revenues	98,316	(45,639)	C	52,677
Other Water Revenues	41,876	(41,876)	B	
Total Operating Revenues	2,797,690	35,517		2,833,207
Operating Expenses:				
Operation and Maintenance:				
Employee Salaries and Wages	502,617	(18,200)	D	
		(64,365)	E	
		(35,881)	F	384,171
Commissioner Salaries and Wages		18,200	D	18,200
Employee Pensions and Benefits	433,030	(143,760)	G	
		(98,820)	H	190,450
Purchased Water	900,650	4,694	I	905,344
Purchased Power	78,273			78,273
Chemicals				0
Materials and Supplies	171,622	(83,721)	F	87,901
Contractual Services - Engineering	31,250	(31,250)	J	0
Contractual Services - Accounting	10,500			10,500
Contractual Services - Legal	5,138			5,138
Contractual Services - Water Testing	8,844			8,844
Contractual Services - Other	9,998			9,998
Transportation Expenses	38,755			38,755
Insurance - Vehicle	8,908			8,908
Insurance - Gen. Liab.	16,066			16,066
Insurance - Workers Comp.	3,130			3,130
Insurance - Other	11,380			11,380
Advertising	290			290
Bad Debt	4,462			4,462
Miscellaneous Expenses	59,413			59,413
Total Operation and Maint. Expenses	2,294,326	(453,103)		1,841,223
Depreciation Expense	362,609	880	J	
		(5,789)	K	357,700
Taxes Other Than Income	47,844	(4,924)	L	42,920
Total Operating Expenses	2,704,779	(462,936)		2,241,843
Net Utility Operating Income	\$ 92,911	\$ 498,453		\$ 591,364

(A) Billing Analysis Adjustment. Green-Taylor District proposed to increase its test-year revenues from retail water sales of \$2,631,273 by \$78,481 and to the sales for resale of \$26,225 by \$2,675 to reflect the increases in rates made during the test year

due to purchase water adjustments.¹⁴ The second purchase water adjustment that Green-Taylor District expected to be approved was denied by Commission Order¹⁵ and eventually the wholesale supplier's increase from Campbellsville Municipal Water and Sewer System (Campbellsville Water) was suspended in Case No. 2022-00278.¹⁶ The Commission's final Order in Case No. 2022-00278 approved the increase sought by Campbellsville Water.¹⁷ Commission Staff made adjustments to reflect the rates that are currently being charged per Green-Taylor District's tariff on file with the Commission. These rates were approved in Case No. 2022-00417;¹⁸ this adjustment was to the test year retail water sales revenue of \$2,631,273 by \$78,481 for a normalized test year revenue of retail water sales of \$2,709,754 and to the test year sales for resale of \$26,225 by \$2,675, for a normalized test year revenue from sales for resale of \$28,900.

(B) Miscellaneous Service Revenues. Green-Taylor District reported test year nonrecurring charge revenue of \$140,192.¹⁹ In the application, Green-Taylor District proposed pro forma adjustments of a decrease of \$41,876 to reclassify Forfeited Discounts that were included in Other Water Revenues.

¹⁴ Case No. 2022-00119, *Electronic Purchased Water Adjustment Filing of Green-Taylor Water District*, (Ky. PSC May 5, 2022) and Case No. 2022-00210, *Electronic Purchased Water Adjustment Filing of Green-Taylor Water District* (Ky. PSC Aug. 11, 2022).

¹⁵ Case No. 2022-00210, *Electronic Purchased Water Adjustment Filing of Green-Taylor Water District* (Ky. PSC Aug. 11, 2022).

¹⁶ Case No. 2022-00278, *Electronic Tariff Filing of Campbellsville Municipal Water and Sewer System Revising its Wholesale Water Service Rates* (Ky. PSC Sept. 28, 2022).

¹⁷ Case No. 2022-00278, *Electronic Tariff Filing of Campbellsville Municipal Water and Sewer System Revising its Wholesale Water Service Rates* (Ky. PSC Sept. 28, 2022).

¹⁸ Case No. 2022-00417, *Electronic Purchased Water Adjustment Filing of Green-Taylor Water District*, (Ky. PSC Jan. 5, 2023).

¹⁹ Application, 4_SAO_w_Attachments.pdf, Schedule of Adjusted Operations, unnumbered page 1.

Commission Staff agrees with Green-Taylor District that the Forfeited Discounts should not be classified as Other Water Revenues and should be reclassified. Commission Staff, therefore, agrees with the \$41,876 adjustment.

Additionally, Green-Taylor District, in response to four rounds of request for information from Commission Staff, provided revised information concerning the nonrecurring charges. These responses provided information that Green-Taylor District received Sewer Billing Revenue that was inappropriately reported as Other Water Revenues and should be removed and reclassified as non-utility income. The amount to be removed is \$7,281.²⁰ In another response, Green-Taylor District provided there were 2,102 occurrences of the Meter Reread Charge for a total amount of \$52,650,²¹ an increase to the Miscellaneous Service Revenues. With the changes in the nonrecurring charges discussed in another section of this report, a decrease of \$55,594 to Miscellaneous Service Revenues was made to the pro forma for the Test Year of \$87,991. Commission Staff recommends that the Commission accept and approve the adjustments to the Miscellaneous Service Revenues.

(C) Other Water Revenues/Forfeited Discounts. As stated above, the adjustment to Other Water Revenues to remove the \$41,876 of Forfeited Discounts is the correct adjustment, and Commission Staff agrees and recommends the Commission accept this adjustment.

²⁰ Green-Taylor District's Responses to Staff's Second Request, Item 1.

²¹ Green-Taylor District's Responses to Staff Second Request, Item 7(b).

(D) Misclassified Commissioner Fees. In its application, Green-Taylor District reported test-year Employee Salaries and Wages expense of \$502,617.²² Green-Taylor District discovered that it had incorrectly recorded the payment of its test-year Commissioner fees of \$18,200 in the Employee Salaries and Wages expense account.²³ Green-Taylor District proposed to correct its error by moving the misclassified Commissioner fees from Employee Salaries and Wages expense to Commissioner Salaries and Wages expense.²⁴ Upon its review of the 2021 General Ledger, Commission Staff determined that Green-Taylor District had incorrectly recorded the \$18,200 Commissioner fees. To correct Green-Taylor District's misclassification error, Commission Staff is recommending the Commission accept Green-Taylor District's proposed adjustment.

(E) Employee Salaries and Wages. Green-Taylor District proposed to increase its test-year adjusted Employee Salaries and Wages expense of \$484,417²⁵ by \$18,154.²⁶ Since the 2021 test-year, Green-Taylor District has given its employees wage increases, and there has been a reduction in the number of employees.²⁷

²² Application, 4_SAO_with_Attachments.pdf, Schedule of Adjusted Operations, unnumbered page 1.

²³ Application, 4_SAO_with_Attachments.pdf, References at 1, Reference C.

²⁴ Application, 4_SAO_with_Attachments.pdf, References at 1, Reference C.

²⁵ \$502,617 (Employee Salaries and Wages expense) - \$18,200 (Proposed Adjustment to Correct Misclassified Commissioner Fee) = \$484,417 (Adjusted Employee Wages and Salaries expense).

²⁶ Application, 4_SAO_with_Attachments.pdf, Schedule of Adjusted Operations at 1, Adjustment Reference (D).

²⁷ Application, 4_SAO_with_Attachments.pdf, References at 1, Reference D.

In the test-year, Green-Taylor District's staff included ten full-time employees.²⁸ On October 14, 2022, an operator in training that was originally hired on October 26, 2017,²⁹ resigned his position.³⁰ Green-Taylor District originally expected to hire a replacement for its operator position by the end of November 2022 and that the interview process would begin the week of November 14, 2022.³¹ As of December 27, 2022, the vacant operator position had not been filled, because Green-Taylor District chose to postpone hiring its new operator until the first of 2023.³² Given the uncertainty regarding the hire date and salary for the potential new operator, an adjustment to reflect the salary for the new operator would fail to meet the ratemaking criteria of being known and measurable.

An adjustment to reflect the actual 2022 wage rates, and the current staff level would meet the ratemaking criteria of being known and measurable. Using Green-Taylor District's current staff level of nine full-time employees, 2,080 regular work hours, the actual test-year overtime hours worked, and the 2022 employee wage rates, Commission Staff calculates a pro forma Employee Salaries and Wages expense of \$420,052, which is \$64,365, below the reported expense level as calculated in the table below.

²⁸ Green-Taylor District's Responses to Staff's First Request, Item 1.d, Excel Workbook: GT1_1.d-Employee_Info.xlsx.

²⁹ Green-Taylor District's Responses to Staff's First Request, Item 1.d, Excel Workbook: GT1_1.d-Employee_Info.xlsx.

³⁰ Green-Taylor District's Responses to Staff's Second Request, Item 3.b, Excel Workbook: GT2_3.b-Current_Employees.xlsx.

³¹ Green-Taylor District's Responses to Staff's Second Request, Item 3.b, Excel Workbook: GT2_3.b-Current_Employees.xlsx and Green-Taylor District's Responses to Staff's Third Request, Item 2.a and Item 2.b.

³² Green-Taylor District's Responses to Staff's Fourth Request, Item 1.a and Item 1.b.

Commission Staff recommends the Commission decrease Employee Salaries and Wages expense by \$64,365.

<u>Job Description</u>	<u>Regular</u>	<u>Overtime</u>	<u>2022 Wage Rates</u>	<u>Pro Forma Emp. Salaries And Wages</u>
Bookkeeper	2,080.00	24.00	\$ 18.15	\$ 38,406
Manager	2,080.00	80.00	35.00	77,000
Operator	2,080.00	284.00	20.20	50,621
Office Manager	2,080.00	39.50	23.14	49,502
Bookkeeper	2,080.00	0.00	18.15	37,752
Bookkeeper	2,080.00	0.25	14.95	31,102
Operator	2,080.00	207.00	20.95	50,082
Operator	2,080.00	322.00	21.22	54,387
Operator in Training	2,080.00	0.00	15.00	31,200
Pro Forma Employee Salaries & Wages				420,052
Less: Reported Employee Salaries & Wages - Staff Report				(484,417)
Pro Forma Adjustment				<u>\$ (64,365)</u>

(F) Tap-on Fees. In its application, Green-Taylor District stated that it installed 85 new meters in 2021 and collected tap-on fees of \$65,400.³³ Green-Taylor District recorded its tap-on fees in Account 617-4320, Tap-On Fees – Meter Connections³⁴ and reported the labor and material cost of the meter installations as an operating expense at the time the meters were installed.³⁵ Substituting the tap-on fees for the actual costs it incurred to install the meters, Green-Taylor District proposed to deduct 30 percent, or \$19,620, of the collected tap-on fees from Salaries and Wages expense and the remaining 70 percent, or \$45,780, from the Materials and Supplies expense.³⁶

³³ Green-Taylor District Responses to Staff's First Request, Item 6.a.

³⁴ Green-Taylor District Responses to Staff's First Request, Item 2, GT1_2-Trial_Balance_2021.xlsx and Item 6.b.

³⁵ Application, 4_SAO_with_Attachments.pdf, References at 1, Adjustment Reference E.

³⁶ Application, 4_SAO_with_Attachments.pdf, References at 1, Adjustment Reference E.

Green-Taylor District submitted new cost justification sheets for its 3/4-Inch tap-on charges to reflect the increased meter installation costs.³⁷ Applying the increased tap-on charges to the 82 3/4-Inch meters installed and the existing tap-on charges for the three (3) 1-Inch meters installed results in pro forma tap-on collections of \$119,602.³⁸ Using the pro forma tap-on collections of \$119,602, Commission Staff reduced Contractual Services – Other expense by 30 percent, or \$35,881,³⁹ and further reduced Materials and Supplies expense by the remaining 70 percent, or \$83,721.⁴⁰

(G) County Employee Retirement System (CERS). Green-Taylor District reported a test-year CERS expense of \$256,964.⁴¹ Green-Taylor District proposed to decrease its test-year Employee Pensions and Benefits expense by \$132,052 to reflect the estimated impact the decrease to employee salaries will have on the employers CERS contribution and the elimination of the GASB reporting requirements.⁴²

Green-Taylor District provides pension benefits and post-retirement health care benefits to its employees by participating in the CERS. As a participating member, Green-Taylor District is required to contribute a percentage of its employee wages to CERS.

³⁷ Green-Taylor District's Responses to Staff's First Request, Item 6.e, GT1_6.e-Cost_Justification_New_Meters.pdf.

³⁸ \$1,411 (Revised Tap-on Fee 3/4-Inch Meter) x 82 (Test-Year 3/4-Inch Meters Installed) = \$115,702. \$1,300 (Existing Tap-on Fee 1-Inch Meter) x 3 (Test-Year 1 Inch Meters Installed) = \$3,900 (Test-Year 1-Inch Tap-on Fees) + \$115,702 (Pro Forma 3/4-Inch Tap-on Fees) = \$119,602 (Pro Forma Tap-on Fees).

³⁹ 30% (Labor Allocation) x \$119,602 (Pro Forma Tap-on Fees) = \$35,881.

⁴⁰ 70% (Material Allocation) x \$119,602 (Pro Forma Tap-on Fees) = \$83,721.

⁴¹ Green-Taylor District Responses to Staff's First Request, Item 3.a, Excel Workbook: GT1_3.a-Adjustments.xlsx. \$129,971 (Retirement) + \$63,766 (OPEB) + \$63,227 (GASB 68) = \$256,964.

⁴² Application, 4_SAO_with_Attachments.pdf, References at 1, Adjustment Reference G and Adjustment Reference H. (\$5,059) (Adjustment Reference G) - \$126,993 (Adjustment Reference H) = (\$132,052).

The CERS pension expense Green-Taylor District reported in the test year conformed to the requirements of the General Accounting Standards Board Pronouncement No. 68 (GASB 68). In Case No. 2016-00163,⁴³ 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, 2022, the CERS employer contribution rate decreased to 26.95 percent.⁴⁴ Based on the above, Commission Staff determined that Green-Taylor District's pro forma CERS employer contributions are \$113,204,⁴⁵ resulting in a decrease to Employee Pensions and Benefits expense of \$143,760.⁴⁶

(H) Employee Pension and Benefits. Green-Taylor District proposed to decrease its test year Employee Pensions and Benefits expense by \$34,810.⁴⁷ Green-Taylor District currently pays 100 percent of the monthly premiums for health, dental, and life insurance for its eligible full-time employees.⁴⁸ Green-Taylor District explained that the Commission currently places the following employer contribution limitations on

⁴³ Case No. 2016-00163, *Alternative Rate Adjustment filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

⁴⁴ <https://kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>. Employer CERS Contribution Rate for the Fiscal Year 2023 beginning July 1, 2022 is 26.95%.

⁴⁵ \$420,052 (Pro Forma Employee Salaries and Wages expense) x 26.95% (CERS Fiscal Year 2023 Employer Contribution Rate) = \$113,204 (Pro Forma Employer CERS Contribution).

⁴⁶ \$113,204 (Pro Forma Employer CERS Contribution) - \$256,964 (Test-Year CERS Expense) = \$143,760.

⁴⁷ Application, 4_SAO_with_Attachments.pdf, References at 1-2, Adjustment Reference I.

⁴⁸ Application, 4_SAO_with_Attachments.pdf, References at 1-2, Adjustment Reference I.

employee insurance benefits: a 78 percent limit single employee health insurance coverage, a 66 percent on family coverage, and a 60 percent limitation dental coverage.⁴⁹ Applying those percentages to the current employee insurance premiums is the basis of Green-Taylor District's proposed adjustment.⁵⁰

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 Green-Taylor District's health insurance premiums by 34 percent for family/parent plus/couple insurance coverages,⁵¹ and by 60 percent dental insurance, the national average employee contribution rate.⁵² Factoring in the preceding,

⁴⁹ Application, 4_SAO_with_Attachments.pdf, References at 1-2, Adjustment Reference I.

⁵⁰ Application, 4_SAO_with_Attachments.pdf, References at 1-2, Adjustment Reference I.

⁵¹ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>)

⁵² The Willis Benchmarking Survey, 2015, at 62–63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

Commission Staff decreased employee pensions and benefits by \$98,820,⁵³ as calculated in the table below.

	Monthly Premium	District	Annual Premium	Allowable	
		Contribution Percentage		Employer Share	Employer Premium
Medical	\$ 9,100	100%	\$ 109,200	66%	\$ 72,072
Life	127	100%	1,524	100%	1,524
Dental	507	100%	6,084	60%	3,650
Total	\$ 9,734		\$ 116,808		\$ 77,246

Allowable Employer Premium	\$ 77,246
Less Annual Premium	(176,066)
Medical Adjustment	<u>\$ (98,820)</u>

(l) Purchased Water. Green-Taylor District reported a test-year Purchased Water expense of \$900,650.⁵⁴ Green-Taylor District proposed to reduce its test-year Purchased Water expense by \$66,815 to eliminate two water invoices that were recorded in the test-year but were for water purchased in a prior year.⁵⁵ Green-Taylor District proposed an increase to test-year Purchased water expense of \$71,509 to reflect the estimated impact the city of Campbellsville's (Campbellsville) wholesale rate increase has on its test-year Purchased Water expense.⁵⁶ The combined impact of Green-Taylor

⁵³ Green-Taylor District's Responses to Staff's First Request, Item 2, Excel Workbook: 2_2021_Adjusted_Trial_Balance.xlsx. Account No. 604.02, Insurance Hospitalization - \$92,337.

⁵⁴ Application, 4_SAO_with_Attachments.pdf, Schedule of Adjusted Operations, unnumbered page 1.

⁵⁵ Application, 4_SAO_with_Attachments.pdf, References at 2, Adjustment Reference J.

⁵⁶ Application, 4_SAO_with_Attachments.pdf, References at 1-2, Adjustment Reference I. The Campbellsville's wholesale rate increased by \$0.0056 per gallon, to a wholesale rate of \$0.002760 per gallon.

District's two proposed adjustments is a net increase to test-year Purchased Water expense of \$4,694.⁵⁷

In reviewing the 2021 General Ledger, Commission Staff determined that Green-Taylor District incorrectly recorded water purchased in a prior period as an expense in the test-year. Further, an adjustment to reflect Campbellsville's current wholesale water rate would meet the rate making criteria of being known and measurable. Commission Staff recommends the Commission accept Green-Taylor District's proposed adjustments to test-year Purchased Water expense.

(J) Contractual Services - Engineering. Green-Taylor District reported a test year Contractual Services - Engineering expense of \$31,250.⁵⁸ In its review of the 2021 General Ledger⁵⁹ and the test year engineering invoices, Commission Staff found that the reported engineering fees were incurred for capital projects. The Uniform System of Accounts for Class A and B Water Districts and Associations (USoA) states:

The cost of construction properly includible in the utility plant accounts shall include, where applicable, the direct and overhead costs as listed and defined hereunder: ... (11) "Engineering and supervision" includes the portion of the pay and expenses of engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work.⁶⁰

Since the *USoA for Class A/B Water Districts and Associations* classifies these engineering fees as construction overhead costs, the Commission Staff recommends that

⁵⁷ \$71,509 (Impact Campbellsville's Increased Wholesale Water Rate) - \$66,815 (Invoice Water Purchased in Prior Period) = \$4,694 (Net Proposed Purchased Water Adjustments).

⁵⁸ Application, 4_SAO_with_Attachments.pdf, Schedule of Adjusted Operations, unnumbered page 1.

⁵⁹ Green-Taylor District's Responses to Staff's First Request, Item 5, 2020 General Ledger.

⁶⁰ *USoA for Class A/B Water Districts and Associations* at 20, AB DistrictsAssoc.doc1.rtf (ky.gov).

they be removed from test-period expenses and capitalized over the appropriate depreciation life resulting in a reduction to operating expenses of \$31,250.

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 life range for water mains is 50 years to 75 years, with a range mid-point of 62.5 years. Using the mid-point depreciation life for water mains of 62.5 years, the Commission Staff increased depreciation expense by \$880 as calculated in the table below.

Description	Capital Items	NARUC Study		Mid-Point Service Life	Dep. Exp.
		Average Service Life Range			
Monarch Eng.	\$ 500	50.0	75.0	62.5	\$ 8
Monarch Eng.	500	50.0	75.0	62.5	8
Monarch Eng.	500	50.0	75.0	62.5	8
Monarch Eng.	500	50.0	75.0	62.5	8
Can-Tech LLC	29,250	50.0	75.0	62.5	468
Can-Tech LLC	23,750 ⁶¹	50.0	75.0	62.5	380
Depreciation					<u>\$ 880</u>

(K) Depreciation. Green-Taylor District proposed to decrease its test-year Depreciation expense of \$362,609 by \$5,789 for a pro forma Depreciation expense of

⁶¹ Green-Taylor District's Responses to Staff's Fourth Request, Item 5.b. The \$23,750 payment to Can-Tech LLC was not reported as an operating expense but rather was paid from the money borrowed from the Kentucky Infrastructure Authority (KIA) for the construction project.

\$356,820.⁶² Green-Taylor District explained that the Commission typically requires a water utility to adjust its depreciation expense when its depreciation lives fall outside of the ranges recommended in the NARUC Study.⁶³ According to Green-Taylor District, its adjustment brings the depreciable lives of its assets to the midpoint of NARUC's recommended ranges.⁶⁴

To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC Study. When no evidence exists to support a specific life that is inside or outside the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC Study ranges to depreciate a utility plant.

Upon its review of Green-Taylor District's depreciation schedule, Commission Staff determined that Green-Taylor District's adjusted depreciation lives are at the midpoint of the NARUC Study range for each asset category. Commission Staff finds Green-Taylor District's depreciation adjustment to be reasonable and has decreased Depreciation expense by \$5,789.

(L) Payroll Taxes. Green-Taylor District proposed to decrease its test year Payroll Tax expense of \$38,450 by \$1,389 to a pro forma level of \$37,061⁶⁵ to reflect its

⁶² Application, 4_SAO_with_Attachments.pdf, Schedule of Adjusted Operations, unnumbered page 1.

⁶³ Application, 4_SAO_with_Attachments.pdf, References at 2, Adjustment Reference K.

⁶⁴ Application, 4_SAO_with_Attachments.pdf, References at 2, Adjustment Reference K.

⁶⁵ Green-Taylor District's Responses to Staff's First Request for Information, Item 3, Excel Workbook: GT1_3.a-Adjustments.xlsx. \$484,463 (Pro Forma Employee Salaries and Wages expense subject to FICA) x 7.65% = \$37,061.

proposed Pro Forma Salaries and Wages changes.⁶⁶ Using the pro forma Salaries and Wages expense subject to Federal Insurance Contributions Act (FICA) tax withholdings of \$438,252⁶⁷ and the current FICA tax rate of 7.65 percent, Commission Staff calculated a pro forma FICA tax expense of \$33,526.⁶⁸ Accordingly, Commission Staff decreased Green Taylor District's payroll tax expense by \$4,924.⁶⁹

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

Historically, the Commission has applied a DSC method to calculate the revenue requirement of water districts and water associations.⁷⁰ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) 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 Green-Taylor District's and Commission Staff's calculations of the revenue requirement and required revenue increase using the DSC method is shown below:

⁶⁶ Application, 4_SAO_with_Attachments.pdf, References at 2, Adjustment Reference D.

⁶⁷ \$420,052 (Pro Forma Employee Salaries and Wages expense) + \$18,200 (Commissioner Salaries and Wages expense) = \$438,252 (Salaries and Wages expense subject to FICA).

⁶⁸ \$438,252 (Salaries and Wages expense subject to FICA) x 7.65% (FICA Rate) = \$33,526.

⁶⁹ \$33,526 (Pro Forma Payroll Tax) - \$38,450 (Reported Test-Year Payroll Tax) = (\$4,924).

⁷⁰ 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).

	Green-Taylor District	Commission Staff
Pro Forma Operating Expenses	\$ 2,426,287	\$ 2,241,843
Plus: Average Annual Debt Service	415,108	415,108
Debt Service Coverage Requirement	83,022	83,022
Overall Revenue Requirement	2,924,417	2,739,973
Less: Other Operating Revenue	(140,192)	(94,553)
Income - Utility Plant Leases	(18,472)	(18,472)
Interest Income	(25,659)	(25,659)
Nonutility Income	(5,351)	(5,351)
Revenue Required from Water Sales	2,734,743	2,595,938
Less: Revenues from Water Sales	(2,738,654)	(2,738,654)
Required Revenue Decrease	\$ (3,911)	\$ (142,716)
Percentage Increase	-0.14%	-5.21%

Average Annual Principal Payments, Interest Payments, and Debt Service Coverage Requirement. At the time of Commission Staff's limited review, Green-Taylor District had two outstanding loans from KIA⁷¹ and one loan from the Kentucky Association of Counties (KACO).⁷² In calculating its revenue requirement, Green-Taylor District used an average annual debt service of \$415,108 and a 0.2 DSC of \$83,022.⁷³ Upon its review of Green-Taylor District's debt amortization schedules, Commission Staff verified that Green-Taylor District's calculations are correct.

⁷¹ See KIA Loan F18-005 - Case No. 2018-00368, *Application of the Green-Taylor Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct and Finance a Water System Improvements Project Pursuant to the Provisions of KRS 278.020, KRS 278.300 AND 807 KAR 5:001* (Ky. PSC Dec. 18, 2018) and KIA Loan F19-018, Case No. 2021-00233, *Application of the Green-Taylor Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct and Finance a Water System Improvements Project Pursuant to the Provisions of KRS 278.020, KRS 278.300 AND 807 KAR 5:001* (Ky. PSC Aug. 13, 2021).

⁷² See KACO Refinancing - Case No. 2019-00071, *Application of Green-Taylor Water District for Approval to Enter Into a Lease Agreement with the Kentucky Association of Counties Leasing Trust for an Approximate Principal Amount of \$2,530,000 for the Purpose of Refinancing all Outstanding Obligations* (Ky. PSC Apr. 24, 2019).

⁷³ Green-Taylor District Responses to Staff's First Request, Item 3.a, Excel Workbook: GT1_3.a-Adjustments.xlsx.

Signatures

/s/ Mark Frost

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

/s/ Eddie Beavers

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

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00246 DATED FEB 24 2023

The following rates and charges are prescribed for the customers in the area served by Green-Taylor 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- x 3/4-Inch Meter

First	2,000 Gallons	\$	21.96	Minimum Bill
Next	3,000 Gallons		0.00925	Per Gallon
Next	5,000 Gallons		0.00749	Per Gallon
Over	10,000 Gallons		0.00494	Per Gallon

3/4-Inch Meter

First	3,000 Gallons	\$	31.69	Minimum Bill
Next	2,000 Gallons		0.00925	Per Gallon
Next	5,000 Gallons		0.00749	Per Gallon
Over	10,000 Gallons		0.00494	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$	49.63	Minimum Bill
Next	5,000 Gallons		0.00749	Per Gallon
Over	10,000 Gallons		0.00494	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$	88.98	Minimum Bill
Over	10,000 Gallons		0.00494	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$	136.04	Minimum Bill
Over	20,000 Gallons		0.00494	Per Gallon

Leak Adjustment Rate

Gallons above avg. usage	\$	0.00215	Per Gallon
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Wholesale Rates

City of Greensburg	\$	0.00264	Per Gallon
Laurel District No. 1		0.00301	Per Gallon

Nonrecurring Charges

After Hours Charge	\$125.00
Debit Credit Card Fee	\$1.50
Meter Reread Charge	\$16.80
Meter Test Request Charge	\$62.00
Reconnection Charge	\$16.80
Return Check Charge	\$10.00
Service Charge	\$16.80

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