

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GRAYSON)
COUNTY WATER DISTRICT FOR A RATE) CASE NO. 2021-00191
ADJUSTMENT PURSUANT TO 807 KAR 5:076)

RESPONSE TO COMMISSION STAFF REPORT

Pursuant to the Commission’s Order of July 15, 2021, Grayson County Water District (“Grayson District”) responds to the Commission Staff Report (“Report”) as follows:

1. While reserving its right to contest specific recommendations set forth in the Report in future Commission proceedings, Grayson District accepts for purposes of this proceeding the Report’s recommended revenue requirement and proposed rates. Provided that the Report’s recommended general service rates are accepted without change, Grayson District does not request a conference with Commission staff and waives its right to a hearing in this matter.

2. Grayson District acknowledges that the Report’s recommended rates will result in rates slightly higher than Grayson District’s proposed rates and agrees the Commission should authorize the higher rates.

3. While Grayson District accepts for purposes of this proceeding the Report’s recommended revenue requirement and proposed rates, it does not agree with Commission Staff’s recommended disallowance of employee health and dental insurance expenses. Commission Staff has not considered the value of total compensation package provided to Grayson District employees, the individual elements of the health and dental insurance coverage provided to Grayson District employees, labor market conditions, or the level of benefits generally provided to employees in the utility sector or among Kentucky’s water utilities. It has ignored the Bureau

of Labor Statistics' findings regarding the portion of employee health insurance expense provided by government entities and instead chose to use the private employer contribution rate even though Grayson District is a government entity and a political subdivision. The recommended disallowance is demeaning to and shows a lack of respect for Grayson District's employees and fails to reflect the full value and worth of those employees and the services that they provide to Grayson District's customers.

4. While Grayson District accepts for purposes of this proceeding the Report's recommended revenue requirement and proposed rates, it does not agree with the Report's recommendation that labor costs related to the non-recurring charges listed in Appendix A of the Report be removed from those charges.

a. Grayson District's current nonrecurring charges are consistent with 807 KAR 5:006, Section 9, which provides that a utility may "make special nonrecurring charges to recover *customer-specific costs* incurred that would otherwise result in monetary loss to the utility or increased rates to other customers to whom no benefits accrue from the service provided or action taken."¹ The regulation does not limit a utility's recovery to the marginal or incremental costs associated with an activity but rather defines a nonrecurring charge as a fee or charge "assessed to a customer to recover the specific cost of an activity."² Grayson District has provide precise customer-specific costs, including the cost of labor, to provide each nonrecurring service. Grayson District's current charges for nonrecurring services reflect the actual customer-specific costs to provide those services. A customer receiving a nonrecurring service pays no more than the cost that Grayson District incurs to provide the service.

¹ 807 KAR 5:006, Section 9(1) (italics and bolding added).

² *Id.* at Section 1(6). *See also* 807 KAR 5:011, Section 1(4).

b. Grayson District has properly included in its nonrecurring charges the labor costs to provide nonrecurring services. The American Water Works Association's *Principles of Water Rates, Fees, and Charges* (7th ed. 2017), a source to which the Kentucky Public Service Commission frequently refers, expressly states that direct and indirect labor costs should be included in the calculation of nonrecurring charges.³ It notes that when developing nonrecurring charges "it is critical to accurately estimate ***the true and full cost of labor*** that goes into service delivery."⁴

c. The inclusion of labor costs in these fees does not result in the double recovery of those costs. When establishing rates for water service, the cost of labor related to the provision of nonrecurring services is included in Grayson District's test period proforma operating expenses. These proforma operating expenses are added to Grayson District's average annual debt service requirement and its debt coverage requirement to determine Grayson District's annual total revenue requirement. Grayson District's miscellaneous revenues, including revenues from nonrecurring charges, are deducted from the annual total revenue requirement to determine the ***total revenue requirement from rates***. From this amount, Grayson District's rates for water service are determined. Because revenues from the nonrecurring charges have been deducted and are not included in ***the total revenue requirement from rates***, none of the costs recovered through nonrecurring charges – including labor costs, are recovered through Grayson District's rates for water service. See Application, Exhibit D.

d. The Commission has expressed concerns that water utilities may unduly rely upon the revenue from nonrecurring charges and be prone to suffer revenue shortfalls when

³ *Principles of Water Rates, Fees, and Charges* at 258-261.

⁴ *Id.* at 259 (italics and bolding added).

the demand for nonrecurring services declines.⁵ To limit these risks, the Commission has for some utilities elected to exclude labor costs from nonrecurring charges for nonrecurring services provided during business hours. That risk is not present in Grayson District's case. For the adjusted test period, revenues from non-recurring services represent less than 1.8 percent of total adjusted test period revenues (\$67,800 out of total operating revenues of \$3,832,691). If the Report's recommended rates are approved, revenues from nonrecurring services will represent less than 1.7 percent of total utility revenue from retail rates. Moreover, the recommended rates reflect the declining number of nonrecurring charges assessed in the period from 2015-2020. Simply put, Grayson District does not significantly rely upon revenue from non-recurring services. It does, however, believe that "any practice that matches a customer's rate with the cost to serve that customer enhances equity" and that, by charging the actual cost for a service, it will be better positioned to manage the demand for that service.⁶

5. Grayson District does not object to Commission Staff's recommendations regarding the useful lives of various asset types but reserves the right to contest such recommendations in future rate proceedings. Grayson District takes no position on whether the Commission should require the Commission Staff-recommended useful lives be implemented for accounting purposes.

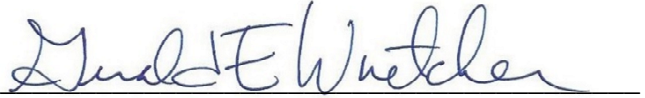
WHEREFORE, Grayson District requests that the Commission without delay issue an Order approving the rates recommended in the Commission Staff Report.

⁵ See, e.g., *Electronic Application of Ohio County Water District for An Alternative Rate Adjustment*, Case No. 2020-00167 (Ky. PSC Dec. 3, 2020) at 4 ("Including fixed costs that Ohio District will incur regardless of the number of nonrecurring service activities it conducts will create a mismatch between how Ohio District incurs expenses, such as salary and wage expense, and how it recovers those expenses from customers. For a publicly owned, nonprofit utility such as Ohio District that operates on thin margins, the Commission finds it is reasonable and necessary to provide appropriate rates to help ensure the health of the utility's operations.").

⁶ *Principles of Water Rates, Fees, and Charges* at 253.

Dated: October 15, 2021

Respectfully submitted,

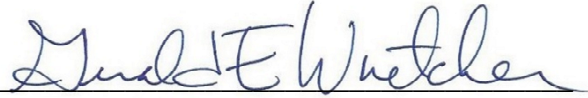


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CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, and the Public Service Commission's Order of July 22, 2021 in Case No. 2020-00085, I certify that this document was transmitted to the Public Service Commission on October 15, 2021 and that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding.



Gerald E. Wuetcher