

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the MATTER OF:

ELECTRONIC APPLICATION OF LAUREL COUNTY)  
WATER DISTRICT#2 FOR ALTERNATIVE RATE )  
FILING ADJUSTMENT )

CASE NO. 2021-00385

RESPONSE OF LAUREL COUNTY WATER DISTRICT #2  
TO COMMISSION STAFF'S REPORT

Laurel County Water District #2 submits its Response to the Commission Staff's Report dated July 13, 2022.

Pro Forma Operating Statement. It appears that the Commission Staff based the Pro Forma Operating Statement on Page 7 on the Original "Schedule of Adjusted Operations-Water Utility TYE 12/31/20" which was filed with PSC on 10/7/21 rather than on the Revised "Schedule of Adjusted Operation-Water Utility TYE 12/31/20" which was filed with PSC on 2/9/22. Therefore, the \$283,109 adjustment noted in (A) Billing Analysis that is shown as an increase for Totaled Metered Sales should actually be \$215,535 based on the Revised information submitted on 2/9/22. This will reduce Total Metered Sales in the Pro Forma Operations column from \$3,134, 916 to \$3,067,342 and Total Operating Revenues from \$3,282,209 to \$3,214,635. (NOTE: I have included a copy of the Revised Schedule of Adjusted Operations-Water Utility TYE 12/31/20 filed 2/9/22 as Exhibit A and a copy of the Response to PSC Staff Request 4 Question 4 filed 6/13/22 as Exhibit B to show the information)

Payroll Taxes, On page 14 (I) The Commission Staff's Report states that the District reported a test-year Payroll Tax expense of \$66,397. This is actually the total in the account "Taxes Other Than Income" and it is not just payroll tax. The breakdown of the amount in this account is as follows:

FICA (employer portion)	\$ 59,872
Ky Unemployment Tax	1,176
PSC Assessment	4,875
Permits	<u>474</u>
Total Taxes Other Than Income	<u>\$ 66,397</u>

Therefore to adjust FICA payroll tax to the Commissions calculation of \$62,916 ( $\$822,428 \times 7.65\%$ ) the adjustment would be an increase of \$3,044 rather than a decrease of \$3.481.

OVERALL Revenue Requirement and Required Revenue Increase. On page 15, the Normalized Revenues from Water Sales needs to be reduced from \$3,134,916 to \$3,067,342 to agree to the changes detailed above for Page 7. Also please note that if water rates are reduced it will also reduce the amount of double hook fees since they are based on the amount of a minimum bill. The Misc Service Revenues on page 7 of \$147,293 include \$54,945 for Double Hook Fees.

The District is of the opinion that the rates in the Appendix should not be ordered for numerous reasons as follows:

1. The Current Water Rates were the rates required in Amendment No. 2 on 2/28/20 to the Letter of Conditions from USDA Rural Development dated 8/8/18. These rates were approved by PSC in Case No. 2020-0079 for the District to be in compliance with the Letter of Conditions to receive the federal funding.
2. The District will be adding an additional employee to our staff within the next few weeks for the Distribution Department as a result of an increase in workload and lack of staff to allow the completion of the work.
3. The District has been short an employee in the office since 5/26/20 when an employee quit to move out of state. The employee has not yet been replaced due to COVID restrictions during that time. Hopefully that position will be filled in the near future.
4. The EPA published Notice (86 FR 71574) that the Lead and Copper Rule Revisions became effective on 12/16/21. It will require additional employee hours to meet all of the requirements. The District will most likely need to hire additional staff or pay employees to work overtime to meet all of the requirements. A copy of the KY DOW LSL Inventory Start-up Guide is at Exhibit C.
5. Bad debt increased from \$10,557 in 2020 to \$39,736 in 2021 as reported on page 51 of the Annual Financial Report submitted to PSC.
6. Operating costs have continued to rise significantly since the 2020 test year.

For example:

- (1) The Commercial Insurance package premium increased 30% from the FYE 6/30/21 policy to the FYE 6/30/23 policy,
- (2) Chemical costs have increased – the cost of Chlorine has increased 87% from 2020 to 2022,
- (3) Salaries and Wages increased effective 1/1/22 as a result of a 5.9% Cost-of-Living Adjustment (COLA) which was given to each employee. According to an article entitled “Social Security Benefits Could See Higher Than Expected Increase in 2023” (written by Kelsey Ramirez sponsored by Credible which is majority owned by the Parent, Fox Corporation), the Cost-of-Living Adjustment could be 10.5% for 2023 based on inflation date. Employees will receive a COLA effective 1/1/23 which will be based on the actual inflation percentage for the year.
- (4) The increase in Salaries will increase the expense for employer portion of FICA and employer portion of Retirement expense
- (5) The utility bills have increased since 2020 as a result of the rate increase approved for KU in Case No. 2020-00349
- (6) Gas prices have risen significantly since 2020

Nonrecurring Charges. The District disagrees with the removal of labor costs related to the non-recurring charges listed on page 5 of the Commission Staff's Report and the Service Reconnection Charge listed on page 6 of the Report. The District's current nonrecurring charges are in compliance 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." A customer is paying no more for the nonrecurring services than the cost incurred by the District to provide the service. The disallowance of the direct labor in performing these nonrecurring services is passing this expense to customers that are not receiving these services. Customers that seldom move and customers that never get disconnected for nonpayment will have to pay for the labor in their water rates for these nonrecurring services applicable to other customers.

If the decision is made to require the District to only allow vehicle expense for these nonrecurring charges, please consider increasing the Service Truck expense for the increase in gas expense and other operating expense for the Truck since the amount listed was for 2020. The average price per gallon of gas on the District's WEX Fleet statement for 2020 as shown on the 12/31/20 statement was \$1.91. The average price per gallon of gas on the District's WEX Fleet statement for 1/1/22 through 6/30/22 was \$3.80 which represents a 99% increase in the average gas prices since the test year ended 12/31/20. Please take this increase into consideration when making your final decision concerning the reduction of nonrecurring charges.

Employee Benefits. The District is aware of the fact that the Commission has consistently made ratemaking adjustments to reduce the cost of employee benefit packages paid by some utilities. The District's Commissioners recently held a discussion at a Board meeting concerning the health insurance premiums. A member of management of a nearby water district had stated that they continue to pay 100% of premiums because that is the only incentive they have left to attract and retain employees. That helps prevent local Districts from training employees and then once they get their certifications they go elsewhere for more money. Laurel County Water District #2 has been receiving fewer applications when there are job openings. The District recently only received 3 applications for an additional position in the Distribution department and only 2 met the requirements and were interviewed on 7/22/22.

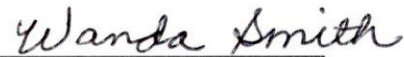
If the District begins requiring employees to pay the disallowed portion of their health insurance premiums the District is concerned that those employees that are eligible would go ahead and retire and others would begin searching for jobs elsewhere. It is very difficult to hire experienced staff in the current job market. The District would need to increase employees' wage rates to compensate for the reduction in benefits.

The increase in salaries and wages plus the additional employer portion of FICA (7.65%) and the employer portion of the retirement (26.79% retirement effective 7/1/22) would be much more costly than the cost of the health insurance premium. For example it would cost the District approximately \$140,000 to compensate the employees for the \$105,425 loss in benefits. The additional wages would also increase the Workers Compensation premiums. We respectfully request that the Commission reconsider their position on this matter at some point in the future.

The District does not request a hearing on the findings in the report or the comments in the response or a conference with Commission Staff, but the District does request that the Public Service Commission consider the arguments and evidence set forth in this response in rendering its decision on the proposed rates. The District is not waiving its right to contest or dispute any findings and recommendations in future proceedings.

Date: July 27, 2022

Respectfully submitted,



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# **RESPONSE TO COMMISSION STAFF'S REPORT**

## **EXHIBIT A**

FILED 2/9/22

ARF FORM 1 - ATTACHMENT SAO-W - SEPTEMBER 2011

*Revised*  
**SCHEDULE OF ADJUSTED OPERATIONS - WATER UTILITY**  
 TYE 12/31/20

	Test Year	Adjustment	Ref.	Pro Forma
<b>Operating Revenues</b>				
Sales of Water				
Unmetered Water Sales	0.00			0.00
Metered Water Sales	2,851,807.00	215,535.00	A	3,067,342.00
Bulk Loading Stations	0.00			0.00
Fire Protection Revenue	0.00			0.00
Sales for Resale	0.00			0.00
<b>Total Sales of Water</b>	<b>2,851,807.00</b>	<b>215,535.00</b>		<b>3,067,342.00</b>
Other Water Revenues				
Forfeited Discounts	0.00			0.00
Miscellaneous Service Revenues	150,088.00	66,863.00	B	216,951.00
Rents from Water Property	0.00			0.00
Other Water Revenues	0.00			0.00
<b>Total Other Water Revenues</b>	<b>150,088.00</b>	<b>66,863.00</b>		<b>216,951.00</b>
<b>Total Operating Revenues</b>	<b>3,001,895.00</b>	<b>282,398.00</b>		<b>3,284,293.00</b>
<b>Operating Expenses</b>				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	804,759.00	47,481.00	D	852,240.00
Salaries and Wages - Officers	30,000.00			30,000.00
Employee Pensions and Benefits	870,667.00	-315,087.00	C	555,580.00
Purchased Water	402.00			402.00
Purchased Power	164,262.00			164,262.00
Fuel for Power Production	0.00			0.00
Chemicals	66,342.00			66,342.00
Materials and Supplies	97,252.00			97,252.00
Contractual Services	22,986.00			22,986.00
Water Testing	14,403.00			14,403.00
Rents	70.00			70.00
Transportation Expenses	23,191.00			23,191.00
Insurance	25,958.00			25,958.00
Regulatory Commission Expenses	0.00			0.00
Bad Debt Expense	10,557.00			10,557.00

Miscellaneous Expenses	65,922.00		65,922.00
Total Operation and Maintenance Expenses	2,196,771.00	-267,606.00	1,929,165.00
Depreciation Expense	539,451.00		539,451.00
Amortization Expense	6,092.00		6,092.00
Taxes Other Than Income	66,397.00		66,397.00
Income Tax Expense	0.00		0.00
<b>Total Operating Expenses</b>	<b>2,808,711.00</b>	<b>-267,606.00</b>	<b>2,541,105.00</b>
<b>Utility Operating Income</b>	<b>193,184.00</b>	<b>550,004.00</b>	<b>743,188.00</b>

*Revised*  
References

A. Increased Metered Water Sales \$215,535.00 for January through April of the test year to reflect the rate increase which was approved by the PSC effective 4/8/20. See details at A-1		
B. Increased Miscellaneous Service Revenues a total of \$66,863.00 as follows:		
Increased revenue from Double Hook fees for January through April of the test year to reflect the rate increase which was approved by the PSC effective 4/8/20		\$ 4,766.00
Increased revenue from Service Charges and Penalties for the test year since penalties and discounts were suspended for most of the test year due to COVID (Based on the average for the three years prior to the test year)		\$ 62,097.00
		<hr/>
TOTAL		\$ 66,863.00
C. Net decrease of \$315,087.00 for Employee Pensions and Benefits as follows:		
Increased Employee Pensions and Benefits due to the premium increase for Anthem health insurance		\$ 10,872.00
Due to GASB 68 and GASB 75 reporting requirements for retirement plan liabilities, an expense of \$342,387.00 associated with the District's pension plan was included in Employee Pensions and Benefits. This amount is deducted since it was not an actual payment to CERS		(\$342,387.00)
Increased Employee Pensions and Benefits due to 5.9% COLA increase in wages:		
\$47,481.00 x 7.65% Employer FICA	\$ 3,632.00	
\$47,481.00 x 26.95% Employer Retirement	\$12,796.00	
		<hr/>
TOTAL		\$ 16,428.00
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		(\$315,087.00)
D. Increased Salaries and Wages-employee for 5.9% COLA		
\$804,759 x 5.9%		\$ 47,481.00



# **RESPONSE TO COMMISSION STAFF'S REPORT**

## **EXHIBIT B**

FILED 6/13/2022

LAUREL COUNTY WATER DISTRICT #2

CASE NO. 2021-00385

RESPONSE TO PSC STAFF REQUEST 4

QUESTION 4

Metered Water Sales as shown on the Schedule of Operations (which was submitted to PSC on 10/7/21) was calculated using The January to April Sales for 2021 as an estimate of the January to April Sales for 2020 at rate increase effective 4/8/20	\$3,134,916
Deduction of increase for January to April 2020 sales based on January to April 2021 sales	<u>(283,109)</u>
	2,851,807
Increase in January to April 2020 sales based on billing analysis using rate increase effective 4/8/10 (Note: this calculation was based on the actual gallons for January to April 2020)	<u>215,535</u>
Metered Water Sales as shown on the Revised Schedule of Operations (which was submitted to PSC on 10/7/21)	<u>3,067,342</u>
Calculation by Eddie Beavers based on Summary Schedule prepared from billing analysis which had been submitted by LWD	3,115,770
Correction for revenue for 2" meter (The schedule submitted by LWD shows 8 bills rather than 12 bills over 100,000)	289
Double hook fees for 2020 included by Eddie Beavers in his calculation (These are included in Miscellaneous Service Revenues on the Schedule of Adjusted Operations)	<u>(54,945)</u>
Metered Water Sales based on billing analysis agreed to with Eddie Beavers	3,061,114
Metered Water Sales for 2020 not included in Billing Analysis for 2020-(not yet identified)	<u>6,228</u>
	<u>3,067,342</u>

**RESPONSE TO COMMISSION STAFF'S REPORT**

**EXHIBIT C**



ENERGY AND ENVIRONMENT CABINET  
DEPARTMENT FOR ENVIRONMENTAL PROTECTION  
DIVISION OF WATER  
300 SOWER BOULEVARD  
FRANKFORT, KENTUCKY 40601

## **Conducting a Lead Service Line (LSL) Inventory**

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### **A Start-up Guide for Public Water Systems**

On December 17, 2021, the EPA published notice ([86 FR 71574](#)) that the Lead and Copper Rule Revisions (LCRR) became effective on December 16, 2021.

The LCRR calls for many changes in monitoring and managing lead and copper in drinking water. The first implemented change will be the required Lead Service Line (LSL) Inventory that all water systems must complete and submit by 2024. LSL inventories must be made available to the public and must be included in the annual Consumer Confidence Report (CCR). Water systems serving over 50,000 must also make their LSL inventories available online.

This notice is to encourage water systems to begin planning their approach to developing LSL Inventories. The Kentucky Division of Water (DOW) will provide further information as it becomes available.

#### **LSL Inventory General Information**

Every public water system is required to complete an inventory of service lines, including identification of:

- The primary material of each service line in the distribution system, e.g., lead, galvanized, non-lead (copper, PVC, etc.), or unknown, and
- Both public (utility-owned) and private sections of the service line.

In order to complete the inventory, systems should use existing records and resources, as well as on-site verification of service line material when needed.

It will be important for water systems to proactively communicate with customers about what the LSL inventory is and, as more information is developed, what the water system will do to remediate lead in drinking water.



## Steps to Get Started

### Follow these preliminary steps to prepare for a successful LSL Inventory

**Step 1:** Designate a contact person or team within the water system to lead inventory efforts

**Step 2:** Evaluate what sources of information and records are available and most accessible

- Available records will vary depending on the water system and community. Possible sources are:
  - Records showing *date of construction* (post-1987, service lines were not made of lead)
    - Construction records
    - Subdivision plats
    - PVA records
    - Real estate sales data
    - Building and plumbing codes
    - Historic aerial photos
    - Water system record showing last date lead service lines were used
  - Tap records
  - Area Development District records
  - Building inspection records
  - Past compliance sampling results

**Step 2:** Review available records and organize (rank) them into levels of validity and usefulness. Digitize any paper records if possible (scan the document or type the information into a database).

**Step 3:** Begin creating or updating the service line inventory database

- Start with a list of all taps and their addresses/locations
- Add information to the database obtained from the records

**Step 4:** Evaluate how much information is still needed

- From your list in Step 3, create 2 lists: 1/ all service lines that don't need further verification, and 2/ all the "unknown" service lines that need further verification either by a field visit or more detailed/accurate records

**Step 5:** Develop a verification plan approach by:

- Geographic sections of the system
- The age of the section of the system
- Reviewing lead and copper water sampling data collected since the 1991 Lead and Copper Rule

**Step 6:** Verify actual service line material by reviewing:

- |  |  |
|--|--|
| • tap records                              | • historical master plans              |
| • construction and plumbing codes          | • inspection records                   |
| • construction/installation records        | • PVA or tax records                   |
| • permits (e.g., construction or plumbing) | • field/visual records                 |
| • distribution system maps                 | • pipe diameter (>2" usually not lead) |
| • meter installation records               | • aerial photos                        |
| • historical capital improvement plans     |  |



## Required Information for the LSL Inventory\*

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1. Type of building
  - single family residential
  - multi-family residential
  - elementary school
  - middle or high school
  - childcare center
  - business
  - industrial
2. Location information for every service line
  - Address
  - GPS location
  - Sampling point number, if currently or historically used as a sampling point for compliance
3. Material used in every service line (2 sets of data – utility-owned line and privately-owned line):
  - Lead
  - Galvanized – unknown if lead contact
  - Galvanized requiring replacement (currently or historically downstream from LSL)
  - Galvanized not requiring replacement (no history of lead contact)
  - Copper
  - Plastic (PVC, HDPE, etc.)
  - Asbestos-cement
  - Unknown (material to be verified later)
4. Date of construction/installation (separate data sets for public vs. private section of service line)
  - Key date: January 1, 1988. If the exact date is unknown, note whether the line was installed before or after that date.
5. List the method(s) used to verify the material of each service line. These records and methods should be considered:
  - Historical record
  - Construction code
  - Plumbing code
  - Permit
  - Distribution system map
  - Distribution system drawing
  - Meter installation record
  - Historical capital improvement plan
  - Historical master plan
  - Inspection record
  - Tap records
  - Construction permit
  - PVA
  - Customer billing data
  - Field inspection
  - Senior staff knowledge

\*Note that this is not an all-inclusive list. As DOW receives more guidance from the EPA, there may be additional requirements for the LSL inventory.



## **Other Important Information**

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### **No LSLs in the distribution system**

Water systems that can show a distribution system has no LSLs (for example, those which were built after 1987) do not need to complete a full service line inventory. They will be required, however, to provide detailed documentation that demonstrates the lack of LSLs and sign a certification statement to that effect.

### **Strategy to Identify Unknowns**

If a water system is unable to identify the primary material used in all service lines by 2024, it will be necessary to develop and report a strategy to perform the required identification, including a timeline for completion (more information to be provided). The LCRR requires that all water systems provide a description of how they will continue to update their service line inventory; therefore, water systems should approach the LSL inventory as an ongoing process that will continue after the 2024 deadline. Any efficiency and organizational processes developed now will be very useful in the long term.

### **Customer Communication**

The LCRR requires greater customer communication about lead compared to past rules. One new requirement is to report LSL inventory information and the location of LSLs in the annual Consumer Confidence Report. As data are collected, water systems should consider methods of clearly communicating the location of distribution system lead to its customers.

### **Further Guidance**

The DOW expects to receive further guidance from the EPA in the coming months and will communicate that information as soon as it becomes available.

The [Lead Service Line Replacement Collaborative](#) is described as “a joint effort of 28 national public health, water utility, environmental, labor, consumer, housing, and state and local governmental organizations” that can provide resources for the LSL inventory.

Please email DOW at [DrinkingWaterCompliance@ky.gov](mailto:DrinkingWaterCompliance@ky.gov) with any questions about LSL inventories.