

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF)	CASE NO.
SOUTHERN WATER & SEWER DISTRICT)	2024-00251

RESPONSE OF SOUTHERN WATER & SEWER DISTRICT
TO THE COMMISSION STAFF'S SECOND REQUEST FOR
INFORMATION DATED MARCH 18, 2025

**Southern Water & Sewer District
Case No. 2024-00251
Commission Staff's Second Request for Information**

Witness: Randy Conley

1. Refer to Commission Staff's First Request for Information, Item 7 (Staff's First Request) and Southern District's Second Amended Response to Staff's First Request, Item 7. The information requested was not provided as described below.
 - a. Provide a complete description of each employee benefit paid to or on behalf of each employee for the calendar years 2023 and 2024. Supplemental coverage for which the employee pays 100 percent of the cost should also be included. Employee names should be redacted from all documents. A description of each benefit and supplemental coverage with employee contribution requirements to the supplemental coverage was not provided. A summary of spending of Dental, Life, and Medical, by supplier based on the 2023 General Ledger is presented below. Each of the benefits that are provided by each of the listed suppliers along with required employee contributions must be provided.

Row Labels	Dental	Life	Medical	Grand Total
AFLAC		4,867.83	3,913.57	8,781.40
ANTHEM			2,346.65	2,346.65
ASSURITY		891.26	1,345.22	2,236.48
COLONIAL		2,243.75	2,925.89	5,169.64
DELTA DENTAL	7,062.25			7,062.25
GLOBE LIFE		1,783.00	6,344.80	8,127.80
KLG			192,295.15	192,295.15
PAYROLL W/H		(686.40)	(29,939.04)	(30,625.44)
Grand Total	7,062.25	9,099.44	179,232.24	195,393.93

Response: Southern District pays 100% for medical, life, dental, and vision insurance for each employee through Anthem. The employees have a copay of \$25.00 for the employee, \$25.00 for spouse, and \$25.00 for dependent children.

The employees pay 100% for add-on insurances such as Aflac, Globe, Combined, Assurity, Colonial Insurances: these are multiple types of Insurance such as Accident, Life, Hospitalization, Long-Term Short-Term disability and cancer policies.

Southern District also provides employees with uniforms. A 401k plan is available to each employee. The company matches half of

the employee contributions up to 3%.

- b. Item 7a. One invoice for 2023, 2024, and 2025 for each benefit was requested. Provide the requested information for each of the service providers listed in the table above for each year or state if a coverage component has either been terminated or there has been a change in providers. A listing of ACH debits for one of the health benefits is not an acceptable alternative and will not be considered responsive.

Response: See files **1b_KLC_Health_and_Life_2023-2025**
1b_Assurity_2023-2024
1b_Aflac_2023-2024
1b_Delta_Dental_2023-2025
1b_Globe_Life_2023-2025
1b_Colonial_Life_2023-2024

Southern District does not use Colonial Life, Assurity, or Aflac in 2025.

- c. Item 7b. Excel file 7b_Employee_Benefits_2023.xlsx provided in the Second Amended Response to Staff's First Request did not provide sufficient information nor did it reconcile to the amounts recorded in the 2023 General Ledger.

Response: See 7b_Employee_Benefits_2023_Corrected

2. Provide the minutes from Southern District's Board of Commissioner (Board) meetings for calendar year 2025, to date. This is a continuing request for monthly minutes for any Board meetings through issuance of the final order.

Response: See file **2_Board_Minutes_2025**

3. Refer to Southern District's response to Staff's First Request, Item 11a. Southern District provided the documentation from the Fiscal Court that verified the appointment of Bob Shepherd, Steven Dawson, and Byron Scott. However, Southern District did not provide any records for the appointment of the remaining members of the Board, nor did it provide fiscal court minutes authorizing any compensation to the Board members. Provide the fiscal court minutes verifying the appointments for the remaining members, as well as authorization for compensation for board members.

Response: See file **3_Fiscal_Court_Minutes.**

4. Provide Southern District's current number of full-time employees and the number of part-time employees.

Response: Southern District has 25 full-time and 0 part-time employees.

5. Provide Southern District's number of full-time employees and the number of part-time employees, representative of full staffing.

Response: Full staffing for Southern District is 25 full-time employees and 0 part-time employees plus two contracted plant operators that help cover shifts at the water plant.

6. Refer to Southern District's Amended Response to Staff's First Request, Item 4, 4_Employee_Earnings_2024.xlsx. State whether total hours reported for 2024 as shown in the chart below are a reasonable representation of recurring operations, without consideration of unanticipated events. If the amounts are not considered a reasonable representation, provide revised hour amounts and the reasoning for the revised amount.

<u>Description</u>	<u>Hours</u>
Overtime	3,884.5000
Wages	42,857.4618
Sick	16.0000
Holiday	1,840.0000
Personal	96.0000
Covid Pay	<u>40.0000</u>
Total	48,733.9618

Response: Southern District acknowledges that the numbers in the chart are a reasonable representation of recurring operations without consideration of unanticipated events.

7. Refer to Southern District's Amended Response to Staff's First Request, Item 4, 4_Employee_Earnings_2023.xlsx. Also, refer to the general ledger for the year ended December 31, 2023 (2023 general ledger). Explain why only two commissioners are designated (C6 and C8) with pay totaling \$11,000 while general ledger account 73001, Commissioner's Fee reflects a total of \$18,000.

Response: The reason that there are only two commissioners in the general ledger account for payroll is that those two wanted to have income taxes withheld from their checks.

The other three commissioners did not want taxes withheld from their checks,

so their checks were in the Commissioner's fee account.

8. Refer to Southern District's Response to Staff's First Request, Item 10, attachment 10_Board_Minutes_2023, unnumbered page 29, Agenda Item I, which states "Motion to cease annual merit raises until resolution of rate case was made by Chairman Prater, seconded by Rr. Roberts, all in favor."

- a. State whether "annual merit raises" is reflective of individual performance adjustments, an inflation type across the board increase, or some other form of increase.

Response: Prior annual merit raises were based upon individual performance and safety as reflected in each employee's yearly evaluation, years of service, training/licenses earned as well as inflation-type across - the-board pay raises.

- b. Provide Southern District's written policy on how wage increases are determined and their frequency.

Response: See file 8b_Excerpt_from_Employee_Handbook

All pay and salary decisions are solely within the discretion of the Board.

- c. Explain when Southern District's board of commissioners anticipates reinstating general wage increases and its reasoning for the timing.

Response: Southern District's board anticipates reinstating general wage increases as soon as funding is made available. Southern District is aware that it is not able to compete with many other employers on the basis of salary/pay alone but Southern must keep their rates of pay reasonable in order to attract and retain quality employees.

9. Refer to Southern District's response to Staff's First Request, 10_Board_Minutes_2023.pdf, November 28, 2023, Board minutes at unnumbered page 26 of 30, Item "E". The agenda items describe a "Safety Performance Bonus" of "\$300 each and employees that have been here less than a year \$150 each." Also refer to Southern District's Amended Response to Staff's First Request, 4_Employee_Earnings_2023.xlsx which reflects a total "performance bonus" of \$5,551.60.

- a. State whether a written policy exists for the Safety Performance Bonus designated in the minutes. If a written policy exists, provide a copy of the policy.

Response: No formal written policy exists regarding Safety Performance Bonuses.

- b. If no policy exists, state the reasoning for the amounts and the decision to award the bonus payments.

Response: Whether to issue and the amount of safety performance bonuses are decisions made by the Board near the end of each calendar year. Said bonuses are based upon both individual performance of each employee as documented in a yearly performance reviews. Many factors are considered in determining the amount of these bonuses including; years of service at Southern, any training/certifications earned recently, attendance, attitude, and overall job performance.

10. Refer to Southern District's response to Staff's First Request, Item 3 (rates excel file BA); also refer to 2023 Annual Report, Water Statistics at page 57 that was filed with the Commission; also, refer to the December 2023 Water Loss Report provided in Case No. 2020-00121. The three referenced reports reflect different gallons sold as shown in the chart below.

- a. Explain each reason for the discrepancy between the 2023 Annual Report and the amount submitted in this case.

**Response: See files 10a_Reading_History_Knott_County_Water
10a_Reading_History_Hindman_High_Flow
10a_Reading_History_Hindman_Low_Flow**

2023 Water Sold	
Knott County Water	11,982,270 gallons
Hindman High Flow	204,818,180 gallons
Hindman Low flow	<u>16,987,320 gallons</u>
Total	233,378,777 gallons

In first part of 2023, the amount sold was being taken from the MOR's that the plant operator was sending. Up until about the middle of the year, the previous office manager was only giving them the amount for one of Hindman's meters and not both. We figured this out but the gallons had already been reported. The above numbers were taken directly from the accounts.

- b. Provide a reconciliation of the components of the discrepancy between the 249,253,487 submitted in this case and the 296,682,000 reported in the 2023 Annual Report.

<u>Description</u>	<u>2023 Annual Report</u>	<u>Surcharge Case 2020-00121</u>	<u>Rate Study ExBA 2024-00251</u>
Gallons Sold ('000s)	296,682,000	273,361,000	249,253,487
Difference to Annual Report		(23,321,000)	(47,428,513)

Response: See files

**10a_Rate_Analysis_Report_2023
3_Rate_Study_TY_2023_with_Corrected_Billing_Analysis**

The original Rate Study incorrectly excluded the consumption for Floyd commercial retail customers and the consumption for wholesale customers. The total amount of billed consumption based upon the 2023 Rate Analysis Report was 279,301,617. The corrected Rate Study correctly reflects that amount. It appears that the gallons sold amounts reported in the 2023 Annual Report and the Surcharge Case 2020-00121 may have been incorrect.

11. Refer to the 2023 general ledger, account number 47401, Other Income.
- Provide a copy of the documents that support the journal entry for a deposit of \$31,872.17 that was recorded on March 24, 2023.

Response: See file 11a_Check_for_31872

- Explain the purpose of the deposit or its components.

Response: This was an insurance check we received for damage that was done to the Spurlock Pump Station. This was a one-time payment.

- State whether the amount will recur.

Response: This amount may not recur.

12. Refer to the 2023 general ledger, Account number 49001, Miscellaneous Income.

- Provide a copy of the documents that support a journal entry for a deposit of \$100,000 that was recorded on August 7, 2023.

Response: See file 12a_Check_for_100000

- b. Explain the purpose of the deposit or its components.

Response: This was a grant from the Floyd County Fiscal Court to help with expenses.

- c. Explain why the amount was not included in the test year of the schedule of adjusted operations.

Response: This was a one-time receipt that was incorrectly included in the schedule of adjusted operations.

13. Refer to Southern District's response to Staff's First Request, Item 26.

- a. The response did not provide "the general ledger account numbers where each nonrecurring charge is recorded", as requested. Provide the information requested for all items except for Late Payment Penalties, which is self-evident based on Commission Staff's review of the general ledger.

Response: There was a problem with the software in 2023 that didn't group the non-recurring charges. The problem has since been addressed. The general ledger account number the tap fees is 47103.

- b. The response reflected 3,403 occurrences of Late Payment Penalties and a reported amount of \$89,156.25 for an average late fee per occurrence of \$26.20. Provide a calculation of the average bill per customer, the maximum possible late fee based on the calculated average bill and reconcile the difference between the calculated maximum late fee on an average bill and the amount reported in the response to Staff's First Request. If the occurrence number is determined to be incorrect, provide a revised response.

Response: See file 13b_Billing_Summary_Report

The number of occurrences Late Payment Penalties is 3,401 for \$89,035.35.

The average bill for a residential customer is based on a 4,000-gallon usage:

Customer charge	\$11.39
First 2000 gallons	\$24.40
Next 2000 gallons	<u>\$18.76</u>
Total	\$54.55

The penalty for an average bill is 10% and would be \$5.46.

- c. Southern District indicated 294 instances of assessing a “Disconnection Charge”, but this charge is not listed in its current tariff. In response to Staff’s First Request, Item 27, nonrecurring charge cost justification sheets, Southern District did not include a cost justification for a “disconnection charge.” Explain if this is a new charge that Southern District is proposing to implement or if this charge has been omitted from its current tariff. If this is a new charge, provide cost justification for the charge.

Response: See file 13c_Disconnect_Charge_Cost_Justification

The Disconnect Charge is a new charge.

14. Refer to Southern District’s response to Staff’s First Request, Item 26 as well as Southern District’s current tariff.

- a. Southern District recorded revenues of \$8,060 collected from its Connection/Turn-On Charge. Reconcile the number of times this charge was assessed (804) and the current charged listed in its tariff (\$20). Explain the discrepancy between the revenues, occurrences and charge.

Response: There was an error in calculation. There were 804 occurrences at \$20.00 each for a total of \$16,080.00.

- b. Southern District recorded revenues of \$20 collected from its Connection / Turn-On Charge (After Hours). The number of times this charge was assessed (2) and the current charged listed in its tariff (\$88). Explain the discrepancy between the revenues, occurrences and charge.

Response: When charges were entered into the system, the wrong code was used. The correct amount of \$20.00 rather than the \$88.00 was used. There were 2 at \$20.00 each for a total of \$40.00. We do all our connections and reconnections within normal business hours and only on rare occasions do we do any after hours.

- c. Southern District recorded revenues of \$4,620 collected from its Reconnection Charge. The number of times this charge was assessed (462) and the current charged listed in its tariff (\$20). Explain the discrepancy between the revenues, occurrences and charge.

Response: There was an error in calculating this: there were 462 occurrences at \$20.00 each for a total of \$9,240.00

- d. Southern District recorded revenues of \$180 collected from its Reconnection Charge (After Hours). The number of times this charge was assessed (18) and the current charged listed in its tariff (\$88). Explain the discrepancy between the revenues, occurrences and charge.

Response: There were 18 occurrences, and the charge is \$20.00 for a total of \$360.00. These should have been included in regular reconnections not after-hours code. There was an error in how these were entered. The correct amount was charged but the wrong code was used. All reconnects are usually done during normal business hours.

- 15. Refer to Southern District's response to Staff's First Request, Item 19, Customer Invoice. Southern District did not provide "the general ledger accounts where each of the respective components are recorded", as requested. Provide the information requested or explain why it cannot be provided.

Response: The general ledger accounts are:

Water	46101
Garbage	47402
Sewer	46150
Surcharge	47403

The taxes are not separated; they go in with the commercial which is 46102.

- 16. Refer to Southern District's response to Staff's First Request, Item 9, 9_Water_Purchases.xlsx, a portion of which is shown in the chart below.
 - a. Explain why September and December quantities differ significantly from other months. If the quantities are determined to be incorrect, resubmit the revised file.

Response: The quantities reported in 9_Water_Purchases were incorrect. A corrected file is submitted below.

See file 9_Water_Purchases_Corrected

- b. Explain why the average cost per thousand gallon for each month except September and December calculates to \$2.26 while September and December calculate to \$1.53 and \$1.30, respectively, per thousand gallons.

Pikeville City

2023

January	14,577,000	\$ 32,944.02
February	13,487,000	\$ 30,480.62
March	16,653,000	\$ 37,635.78
April	13,586,000	\$ 30,704.36
May	14,628,000	\$ 33,059.28
June	10,708,000	\$ 24,200.08
July	11,919,000	\$ 26,936.94
August	13,950,000	\$ 31,527.00
September	20,605,846	\$ 31,504.40
October	12,544,000	\$ 28,349.44
November	12,544,000	\$ 28,349.44
December	20,605,846	<u>\$ 26,742.58</u>
	175,807,692	\$ 362,433.94

Response: The quantities reported in 9_Water_Purchases were incorrect. A corrected file is submitted below.

See file 9_Water_Purchases_Corrected

17. Refer to the Application, at unnumbered page 14 of 254, Schedule of Adjusted Operations, Bad Debts.

- a. Provide Southern District's written policy, including required authorizations, for when a balance is determined uncollectible and will be written off. If a written policy does not exist, explain the process for determining when to write-off an amount.

Response: Southern District does not have a written policy regarding bad debt. Each account is reviewed individually. We do attempt to contact these customers, send them bills each month and after 90 days if there is still no payment made on the account, we adjust it off to bad debt.

- b. Provide the reasoning for why the pro forma bad debt amount of \$152,472 is representative of recurring operations. Include in the response calculations, including trend analysis that supports the reasoning.

Response: The pro forma bad debt amount of \$152,472 was set based upon the professional judgement of the accountant advising Southern Water District. Following is trend data for the previous years:

	Total Metered Sales	Bad Debt Expense	Percent
2019	\$3,602,010.00	\$141,219.00	3.92%
2020	\$3,781,446.00	\$175,781.00	4.65%
2021	\$3,472,502.00	\$106,691.00	3.07%
2022	<u>\$3,467,238.00</u>	<u>\$217,260.00</u>	<u>6.27%</u>
Average	\$3,580,799.00	\$160,237.75	4.47%

The proforma amount was estimated as:

2023	\$ 3,262,150.00	\$152,472.00	4.67%
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18. Refer to the 2023 general ledger and the general ledger for the year ended December 31, 2024 (2024 general ledger), account number 62000, Contract Labor – Water.

- a. State what functions are performed by contract labor that are charged to this account.

Response: We have two plant operators that work for other water companies and fill in and help cover shifts at our water plant as needed.

- b. Explain why the positions are not regular employees as part of their roles and responsibilities.

Response: We needed concrete poured in front of the office and we needed a skilled laborer for that which we did not have on staff. We didn't have a mechanic on staff and needed repairs to the fleet and equipment.

- c. The reported expense decreased from \$54,009 in 2023 to \$40,054 in 2024. Explain the reasons for the decrease.

Response: It decreased because there was a decrease in the hours needed. Also, we have more plant operators and now have a mechanic on staff.

- d. State whether 2023 or 2024 spending is considered more representative of recurring operations and explain the reasoning.

Response: It is difficult to determine which year may be considered as more representative of recurring operations as work requirements vary from year-to-year. It may be that the 2024 hours may be more representative as it is more recent; however, the 2024 data is not from the

test year. Southern District requests consistent use of 2023 test year data.

19. Refer to the 2023 and 2024 general ledgers, account number 61501, Management fees.

- a. Provide a copy of the most recent contract between Southern Water and Utility Management Group (UMG).

Response: See file 19a_UMG_Contract

- b. Describe how each monthly payment is calculated.

Response: Monthly invoice is figured out with hours worked by UMG employees, vehicle mileage reimbursement per contract, and any services, parts, equipment purchased for SWSD by UMG.

- c. Refer to the 2024 general ledger, account number 61501, Management Fees, November 20, 2024 posting. Provide an invoice supporting the November 20, 2024 posting in the amount \$16,817.81.

Response: See file 19c_UMG_Invoice

- d. Given that 2023 management fees were \$229,148 and 2024 fees were \$197,492, state the annual amount that is representative of recurring operations and explain the basis for the amount.

Response: We have budgeted \$235,990 for year 2025 but this amount will vary depending on the actual invoices for the year.