



Andy Beshear
Governor

Rebecca W. Goodman
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Kent A. Chandler
Chairman

Amy D. Cabbage
Vice Chairman

Marianne Butler
Commissioner

December 21, 2021

PARTIES OF RECORD

Re: Case No. 2021-00350

Attached is a copy of a memorandum, which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum, please do so within five days of receipt of this letter.

If you have any questions, please contact Brittany Koenig, Assistant General Counsel at Brittany.Koenig@ky.gov or by phone 502-782-2591

Sincerely,

A handwritten signature in blue ink that reads "Linda C. Bridwell".

Linda C. Bridwell, PE
Executive Director

Attachment

**Garrard County Water Association
Case No. 2021-00350
Informal Conference (December 20, 2021)**

Agenda

- I. Preliminaries
- II. Case No. 2020-00187
- III. Review of Current Rates/Revenues for GCWA (attachment)
- IV. Review of Water Loss Mitigation Efforts (attachment)
- V. Preview of Upcoming Filing
- VI. Wrap-Up

REVENUE REQUIREMENT CALCULATION - OPERATING RATIO METHOD

(Method commonly used by investor owned utilities and/or non-profit entities that do not have long-term debt outstanding.)

Pro forma Operating Expenses Before Income Taxes	\$2,322,271.84
Operating Ratio	0.88
Sub-Total	2,638,945.27
Less: Pro forma Operating Expenses Before Income Taxes	-2,322,271.84
Net Income Allowable	316,673.43
Add: Provision for State and Federal Income Taxes, if Applicable (see footnote)	
Interest Expense	45,767.54
Pro forma Operating Expenses Before Taxes	2,322,271.84
Cost of Natural Gas (water utilities should leave this blank)	
Total Revenue Requirement	2,684,712.81
Less: Other Operating Revenue	67,936.03
Non-operating Revenue	25,846.36
Interest Income	106,269.74
Total Revenue Required from Rates for Service	2,484,660.68
Less: Revenue from Sales at Present Rates	2,242,512.00
Required Revenue Increase	242,148.68

Required Revenue Increase stated as a Percentage of Revenue at Present Rates 10.8%

Provision for Income Taxes - Calculation of Tax Gross-Up Factor

Revenue	1	N/A
Less: 5% State Tax	-0.05	
Sub-Total	0.95	
Less: Federal Tax, 15% of Sub-Total	-0.1425	
Percent Change in NOI	0.8075	
Factor (Revenue of 1 divided by change in NOI)	1.23839	
Times: Allowable Net Income	316,673.43	
Net Income Before Taxes	392,165.24	
Difference Equals Provision for State and Federal Income Taxes	75,491.81	

Notes: (1) Natural gas utilities should deduct their cost of natural gas from pro forma operating expenses before performing the operating ratio calculation. The cost of natural gas should be added back and included in pro forma operating expenses when determining the total revenue requirement. (2) A provision for state and federal income taxes should only be included in the calculation of revenue requirements for utilities that file income tax returns and are liable for the payment of state and federal income taxes. Utilities whose income flows through to its owner's income tax returns for tax purposes should not include a provision for income taxes. (3) The conversion factor above is calculated using the minimum federal tax rate. Adjustment may be warranted where the actual federal tax rate exceeds the minimum federal tax rate.

Water Loss Mitigation

- The staff at Garrard Co. Water daily read 8 master meters which allows us to monitor 8 separate zones throughout the county.
- The staff at Garrard Co. Water daily input values on a spreadsheet (water purchased, water sold, leaks, flushing, fire dept. use, etc.) in order to monitor our water loss.
- The staff at Garrard Co. Water daily perform service calls throughout the county. During those service calls whether a line locate, read meter, check pressure, etc. our service men are always looking for a possible leak.
- Because Garrard Co. Water has cultivated good relationships throughout our community, customers won't hesitate to report a leak.
- Any leak that is found is fixed immediately!
- Garrard Co. Water has recognized that our system is aging, so in 2018 began the process of updating its infrastructure by doing a \$3.8 million dollar system improvement project. The main goal of the projects was to replace problematic lines with new ones and to begin replacing old meters with new AMR meters.
- Approximately 1768 old meters have currently been replaced with new AMR's and additionally any meter that is removed is replaced with a new one.
- Garrard Co. Water is actively in the process of preparing for its next system improvement project. This project has already been approved by Rural Development and the intent is to begin construction late spring to early summer. This project will consist of replacing problematic lines, replacing approximately 1000 more meters with AMR's, and replacing an aging storage tank with a new one.

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2021-00350

FROM: Brittany Koenig, Assist. General Counsel

DATE: 12-20-21

RE: Informal Conference of Dec. 20, 2021

Pursuant to a Staff Notice issued on December 9, 2021, a virtual informal conference (IC) was conducted on December 20, 2021. Attached is a copy of the attendance roster.

The purpose of the IC was to discuss the issues in this case and evidence that would be helpful to provide the Commission for the record.

Commission Staff, Brittany Koenig, began the meeting by advising representatives of Garrard County Water Association (Garrard County Water) that notes would be taken during the conference and that Staff would prepare and enter into the record a memorandum regarding the conference. Staff further advised that the utility has five days after the memorandum is entered into the record to file comments on the memorandum.

Ariel Miller, Commission Staff, explained first that the materials that the Commission requires documentation in the case record to support the conclusion that Garrard County Water's rates are sufficient to meet its financial and operational requirements. Ms. Miller explained that based upon the record and Commission documents, there is a question because the annual report shows that Garrard County Water has ended the year with a net operating income loss for the last four years. With water loss averaging above 15% as well, the net operating income losses are a red flag. However, Staff found inconclusive support that those losses could be offset by the utility selling CDs and paying off over \$1 million in USDA/RD loans, moving that amortization out 24 years. The record is currently unclear and Staff advised the utility to clarify in its filings and provide the supporting financial documents, planning, and explanations to show that the utility is financially healthy with planning in place to address water loss and normal operational requirements.

Garrard County Water's counsel, David Samford, provided an agenda prior to the informal conference listing discussion points like, Case No. 2020-00187, Review of Current Rates/Revenues for Garrard County Water, Review of Water Loss Mitigation Efforts, and Preview of Upcoming Filing. The agenda and two additional pages are attached to this memo. The utility provided a calculation to explain the way they were figuring the revenue requirement and a list of mitigation items to address water loss. Mr. Samford set the two issues from the opening order in this case as the financial condition or rates of the utility and the issue of water loss. The utility took the show cause order

very seriously. Sean Smith, manager at Garrard County Water, presented and stated that the utility has made good choices and saved money. The accumulated money in the CDs matured and the utility completely paid off all of its USDA/RD debt. Mike Stevens, CPA, stated that the depreciation fund has gone from \$414,000 in 2015 to \$562,000 in 2020. Ms. Miller confirmed with Mr. Smith that, after paying off the loans with USDA/RD, the utility has no other debt. Ms. Miller made some suggestions regarding depreciation and referenced a study by NARUC that Staff will provide following the conference.

Sam Reid, Commission Staff, asked Mr. Smith about zone meters and explained that the utility could consider a water loss surcharge to help address a specific plan to reduce water loss. Mr. Smith explained that he is looking at zone meters and may revise one of the ongoing projects to include some. Mr. Smith also explained that current water loss at the utility by the zones/areas is as follows: Buckeye area-10%; Danville area-15%; Merrywood area 1%; Stanford area-8%; Richmond Road area-27%; and Lexington Road area-31%. Mr. Smith explained it is a 50 year-old system and needs repairs. He also explained that the utility is planning to file a case pursuant to KRS 278.023 and a purchase water adjustment case due to increases from Lancaster. Commission Staff referred the utility to the Commission's investigation in Case NO. 2019-00041 regarding the difference between a base rate case or alternative rate filing and a case filed pursuant to KRS 278.023. Commission Staff acknowledged Mr. Smith's professionalism and longstanding good reputation at the Commission for trying to make correct filings and meet deadlines. Commission Staff thanked Mr. Smith for reaching out to communicate and help the Commission get all the information it requires to make a decision on the record.

There being no further discussion, the IC was then adjourned.

cc: Parties of Record

Attendance Log for Virtual IC on December 20, 2021

Commission Staff:

Brittany Koenig

Ariel Miller

Sam Reid

Justin Young

Moriah Tussey

Garrard County Water:

David Samford, counsel

Allyson Honaker, counsel

Sean Smith, Current Manager

Mike Stevens, CPA

*L Allyson Honaker
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*David S Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*Garrard County Water Association, Inc.
315 Lexington Road
P. O. Box 670
Lancaster, KY 40444

*Sean Smith
Registered Agent
Garrard County Water Association, Inc.
315 Lexington Road
P. O. Box 670
Lancaster, KY 40444