

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SIMPSON)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2024-00068
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 April 9, 2024, as amended by Order dated July 9, 2024 (Procedural Order), the attached report containing the recommendations 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 Procedural Order, Simpson County Water District (Simpson District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Simpson 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 SEP 05 2024

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 SIMPSON COUNTY WATER DISTRICT

Simpson County Water District (Simpson District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 3,191 residential customers, 368 commercial customers, and 21 industrial customers that reside in Simpson County, Kentucky.¹

On March 21, 2024, Simpson District filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,² Simpson District used the calendar year ended December 31, 2022, as the basis for its application. The application was filed pursuant to the Commission's final Order in Case No. 2022-00390 which required Simpson District to file an application for an adjustment of its base rates by March

¹ *Annual Report of Simpson District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Simpson Annual Report) at 12 and 49.

² 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.

24, 2024.³ Simpson District's last base rate increase, also submitted pursuant to the alternative rate filing procedure, was in Case No. 1989-00219.⁴ Since that matter, Simpson District has only adjusted its rates pursuant to purchased water adjustments, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity. To ensure the orderly review of the application, the Commission initially established a procedural schedule by Order dated April 9, 2024, later amended by Order entered July 9, 2024. Simpson District responded to three discovery requests from Commission Staff.⁵

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Simpson District reported a water loss of 15.0943 percent.⁶ Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Simpson District currently purchases its water from White House Utility District (White House District) in White House, Tennessee.⁷ The table below shows that the 2022

³ Case No. 2022-00390, *Electronic Purchased Water Adjustment Filing of Simpson County Water District* (Ky. PSC Dec. 16, 2022), final Order, ordering paragraph 5.

⁴ Case No. 1989-00219, *In the Matter of the Application of Simpson County Water District, Simpson County, Kentucky, Seeking Approval of an Increase in its Schedule of Water Service Rate, Such Increase to be Effective as of the 1st Day of October 1989* (Ky. PSC, Nov. 8, 1989).

⁵ Simpson District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed May 7, 2024); Simpson District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed June 5, 2024); and Simpson District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed July 22, 2024).

⁶ 2022 Simpson Annual Report at 57.

⁷ 2022 Simpson Annual Report at 54.

total annual cost of water loss to Simpson District is \$175,935, while the annual cost of water loss in excess of 15 percent is \$1,098.

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 1,134,622	\$ 30,953	\$ 1,165,575
Water Loss Percent	15.0943%	15.0943%	15.0943%
Total Water Loss	\$ 171,263	\$ 4,672	\$ 175,935

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 1,134,622	\$ 30,953	\$ 1,165,575
Water Loss in Excess of 15 Percent	0.0943%	0.0943%	0.0943%
Disallowed Water Loss	\$ 1,069	\$ 29	\$ 1,098

DISCUSSION

Using its pro forma test-year operations, Simpson District determined that a base rate revenue increase of \$148,646, or 5.81 percent, was necessary to achieve the revenue requirement as shown in the table below.⁸

Description	Simpson District
Pro Forma Operating Expenses	\$ 2,586,423
Plus: Avg. Annual Principal and Interest Payments	198,881
Additional Working Capital	39,776
Total Revenues Requirement	2,825,080
Less: Other Operating Revenue ()	(93,975)
Less: Interest and Dividend Income ()	(14,635)
Less: Nonutility Income ()	(7,790)
Revenue Required From Water Sales	2,708,680
Less: Revenue from Sales at Present Rates ()	(2,560,034)
Required Revenue Increase	\$ 148,646
Percentage Increase	5.81%

⁸ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Revenue Requirements Table.

The rates requested by Simpson District would increase the residential monthly bill of a typical residential customer with a 5/8 Inch meter using 4,615 gallons per month by \$2 from \$34.71 to \$36.71 or approximately 5.76 percent.⁹

To determine the reasonableness of the rates requested by Simpson District, Commission Staff performed a limited review of Simpson 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 measurable¹⁰ 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. William Foley reviewed the calculation of Simpson District's Overall Revenue Requirement, and Jason Green reviewed Simpson District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Allocation Methodology. Simpson District participates in a joint Operations Agreement with Warren County Water District (Warren District) and Butler County Water System (Butler County System).¹¹ Each water system establishes its own policies,

⁹ Application, Attachment 1, 1_Customer_Notice.

¹⁰ Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

¹¹ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

regulations and rates. All water systems meet bi-annually. For all shared services, the Joint Utility Committee annually reviews and approves cost allocations.¹²

As the lead water system, Warren District provides: (1) Information Network hosting software; (2) Coordination and Supervision of operations, maintenance, and construction of the water systems; (3) Engineering, supervision of contractors and construction inspection services; (4) Accounting records and financial reporting; (5) Coordination, supervision, and maintenance of billing and meter reading services; (6) Equipment and material inventory necessary to maintain the systems; (7) Customer service and the processing of applications for services.¹³

Each water system pays the actual cost monthly for labor, equipment, material, contractual services, and other expenses for services provided by any water system.¹⁴

Actual Costs – Timecard Labor and Equipment. Warren District provides employees, equipment, and other services necessary to perform general system operations and business to each water system. Each participating system pays the actual cost for labor, equipment, material, contractual services, and other expenses for services provided by any other system. On a monthly basis, each water system reimburses Warren District for the actual costs of these services.¹⁵

¹² Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

¹³ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

¹⁴ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

¹⁵ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

Direct Purchases. Each system purchases materials and services directly without utilizing Warren District. In addition, each system separately purchases assets and funding for construction projects.¹⁶

Rates and Allocations. At the beginning of each year, the Joint Utility Committee reviews and approves a Rates and Allocation Memo that outlines the following standard cost sharing allocations.

A. Allocation of Administration wages and other shared expenses. This allocation is based upon prior year’s total number of Customers and each system’s percentage of the total. During the test year the allocation percentage for Simpson District was 7.24 percent,¹⁷ As shown in the following table.

Test Year Allocation Percentages		
Utility	2021 Number Customers	Allocation of Shared Expenses
Warren District - Water	31,754	64.54%
Warren District - Sewer	8,880	18.05%
Butler County Water	5,002	10.17%
Simpson District	3,563	7.24%
Total	49,199	100%

B. Distribution within each water system of allocated administrative wages. Allocated administrative wages recorded to each water system are recorded to expense and capital based on the prior years’ percentage breakdown of direct timecard wages. For 2022 administrative wages, the expense and capital breakdown was

¹⁶ Simpson District’s Response to Staff’s First Request, Item 3, 3_Allocation_Methodology.pdf.

¹⁷ Simpson District’s Response to Staff’s First Request, Item 3, 3_Allocation_Methodology.pdf.

59 percent and 41 percent.¹⁸ The breakdown of the General Managers wages was 30 percent expense and 70 percent capital.¹⁹

C. Employee Overhead Rate. The overhead rate is applied to wages worked and allows Warren District to recover employment costs such as taxes, medical Insurance, retirement, employee leave, workman's compensation, and holiday pay. The rate is determined by dividing the estimated overhead costs by the projected total wages worked. For year 2022, the initial overhead rate was 63.1 percent, and the final overhead rate was 64.6 percent.²⁰ The overhead reimbursement amount is charged to the water systems by multiplying employee wages worked by the overhead rate.²¹

2. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff determined that Simpson District's required revenue from Water Sales is \$2,645,779 to meet the Total Revenue Requirement of \$2,753,585 and that a \$85,745 revenue increase, or 3.35 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

3. Monthly Water Service Rates. Simpson District proposed to increase all of its monthly retail and wholesale water service rates by approximately 5.81 percent across

¹⁸ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

¹⁹ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

²⁰ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

²¹ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

the board.²² Simpson District stated that it did not complete a COSS at this time as there has been no material changes in the water system.²³

The rates set forth in Appendix B to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,645,779 Revenue Required from Rates, an approximate 3.35 percent increase. These rates will increase a typical residential customer's monthly water bill from \$34.71 to \$35.87, an increase of \$1.16, or approximately 3.34 percent.²⁴

4. Nonrecurring Charges. Following the Commission's previous decisions,²⁵ Commission Staff has reviewed Simpson District's Nonrecurring Charges. The Commission previously found that because 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. Simpson District provided the cost justification for the nonrecurring charges.²⁶ Commission Staff reviewed the cost justification information provided by Simpson District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. In

²² Application, Attachment 1, Customer Notice, 1_Customer_Notice.pdf.

²³ Simpson District's Response to Staff's First Request, Item 11a.

²⁴ The average retail customer has a 5/8 Inch meter using 4,615 gallons per month as used by Simpson District in its Application, Attachment 1, 1_Customer_Notice at 3.

²⁵ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), 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).

²⁶ Simpson District's Response to Staff's First Request, Item 15a, Attachment at 19.

response to Item 15 of Staff's First Request, Simpson District provided a list of the number of occurrences for each of their nonrecurring charges, this list included two new charges not present in Simpson District's Tariff.²⁷ Commission Staff requested Simpson District to confirm whether the Delinquent Service to Reconnect and Delinquent Service to Reconnect - After Hours charges are components of the Delinquent Service charge.²⁸ Simpson District replied by affirming that Delinquent Service to Reconnect and Delinquent Service to Reconnect - After Hours are components of the Delinquent Service charge.²⁹ Simpson District also mentioned that if service is reconnected other than during regular working hours, the charge shall be \$65.³⁰

Commission Staff notes that Simpson District did not meet its burden of proof for providing sufficient evidence in regard to the Delinquent Service to Reconnect charge or Delinquent Service to Reconnect After Hours charge. Simpson District's current tariff does not list either charge or was a cost justification provided on behalf of these two additional charges. Additionally, Simpson District did not propose a new tariff charge in its application nor provide notice to its customers that it was proposing a new charge. Commission Staff notes that all other tariff charges are set out individually, including the other after-hours charge.

As a result, Commission Staff recommends that Simpson District only be allowed to recover \$25 for Delinquent Service Charge, excluding labor. There is a substantial increase to Service Investigation-After Hours of \$39 increasing the charge from \$65 to

²⁷ Simpson District's Response to Staff's First Request, Item 15 at 19.

²⁸ Simpson District's Response to Staff's Second Request, Item 14 at 6.

²⁹ Simpson District's Response to Staff's Second Request, Item 14 at 23.

³⁰ Simpson District's Response to Staff's Second Request, Item 14 at 23.

\$104 as requested by Simpson District in the cost justification provided for Service Investigation-After Hours.³¹ Commission Staff recommends the Commission to accept the increase to the Service Investigation-After Hours as the amount is measurable and known. The cost justification information provided by the district supported the requested increase. The adjustments discussed above result in the following revised Nonrecurring Charges:

Nonrecurring Charges		
Description	Current Charge	Revised Charge
Service Connection	\$25.00	\$8.00
Service Connection-After Hours	\$65.00	\$57.00
Delinquent Service	\$25.00	\$16.00
Meter Reading Recheck	\$25.00	\$8.00
Service Investigation	\$25.00	\$12.00
Service Investigation-After Hours	\$65.00	\$104.00
Meter Test Request	\$50.00	\$5.00
Meter Investigation	\$75.00	\$9.00
Returned Check	\$25.00	\$5.00
Service Line Inspection	\$50.00	\$12.00

The adjustments to the Nonrecurring Charges result in a decrease in Miscellaneous Service Revenues of \$8,186 as shown below.

³¹ Simpson District's Response to Staff's First Request, Item 15a, Attachment at 19.

Description	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Service Connection	283	\$25.00	\$8.00	\$ (4,811)	\$ 2,264
Service Connection-After Hours	2	\$65.00	\$57.00	(16)	114
Delinquent Service	315	\$25.00	\$16.00	(2,835)	5,040
Meter Reading Recheck	0	\$25.00	\$8.00	0	0
Service Investigation	2	\$25.00	\$12.00	(26)	24
Service Investigation-After Hours	1	\$65.00	\$104.00	39	104
Meter Test Request	1	\$50.00	\$5.00	(45)	5
Meter Investigation	2	\$75.00	\$9.00	(132)	18
Returned Check	18	\$25.00	\$5.00	(360)	90
Service Line Inspection	0	\$50.00	\$12.00	0	0
Pro Forma NRC Revenue				<u>\$ (8,186)</u>	\$ 7,659
Less: Test Year NRC Revenue ()					(15,845)
Adjustment					<u>\$ (8,186)</u>

Simpson District provided an updated cost justification for its 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge.³² Commission Staff reviewed Simpson District's proposal of keeping the tap-on-charge unchanged at \$1,600. However, the cost justification sheet showed a total connection expense of \$1,647. Commission Staff recommends increasing the tap-on charge to reflect the expenses presented in the updated cost justification provided by Simpson District to avoid under recovering \$47 per tap-on charge.

PRO FORMA OPERATING STATEMENT

Simpson District's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.

³² Simpson District's Response to Staff's First Request, Item 15b, Attachment at 19.

Description	Test Year	Commission		Total Adjustments	Pro Forma	
		Proposed Adjustments	Staff Adjustments			
Operating Revenues						
Total Metered Sales	\$ 2,611,738	\$ (93,251)		\$ (93,251)	(A)	\$ 2,518,487
Private Fire Protection	41,703	(156)		(156)	(B)	41,547
Total Sales of Water	2,653,441	(93,407)	-	(93,407)		2,560,034
Other Water Revenues						
Forfeited Discounts	37,943					37,943
Misc. Service Revenues	16,785	-	(8,186)	(8,186)	(C)	8,599
Rents From Water Property	37,014					37,014
Other Water Revenues	2,233					2,233
Total Other Water Revenues	93,975	-	(8,186)	(8,186)		85,789
Total Operating Revenues	2,747,416	(93,407)	(8,186)	(101,593)		2,645,823
Operating Expenses						
Operation and Maintenance Expenses						
Salaries and Wages - Employees	228,656	52,616	-	52,616	(D)	281,272
Salaries and Wages - Officers	10,800					10,800
Employee Benefits	112,610	(20,531)	-	(20,531)	(E)	
		783	(788)	(5)	(F)	
Employee Pensions	-	11,996	-	11,996	(G)	104,070
Purchased Water	1,216,129	-	(81,507)	(81,507)	(H)	
		(1,143)		(1,143)	(I)	1,133,479
Purchased Power	30,953	(29)		(29)	(I)	30,924
Materials and Supplies	38,961					38,961
Contractual Services- Accounting	6,029					6,029
Contractual Services- Legal	113					113
Contractual Services- Water Testing	6,812					6,812
Contractual Services- Other	127,101					127,101
Rental of Building/ Real Property	9,912					9,912
Transportation Expenses	37,509					37,509
Insurance - Vehicle	1,173					1,173
Insurance - Gen. Liability	11,946					11,946
Insurance - Workers' Compensation	1,445					1,445
Insurance - Other	804					804
Bad Debt	1,859					1,859
Miscellaneous Expense	5,226					5,226
Total Operation and Maintenance Expenses	1,848,038	43,692	(82,295)	(38,603)		1,809,435
Depreciation	700,686	-	11,035	11,035	(J)	
		(155,930)	-	(155,930)	(K)	
		82,024	(5,025)	76,999	(L)	
		41,654	-	41,654	(M)	674,444
Taxes Other Than Income	3,916	22,343	1	22,344	(N)	26,260
Utility Operating Expenses	2,552,640	33,783	(76,284)	(42,501)		2,510,139
Net Operating Income	194,776	(127,190)	68,098	(59,092)		135,684
Gains/ Losses from Disposal of Utility Property	(4,977)			-		(4,977)
Interest and Dividend Income	19,115	-		-		19,115
Nonutility Income	7,879	-		-		7,879
Income Available to Service Debt	\$ 216,793	\$ (127,190)	\$ 68,098	\$ (59,092)		\$ 157,701

(A) Billing Analysis – Metered Water Sales. Simpson District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its

application.³³ It reported total metered water sales revenue of \$2,611,738 for the test year in its Schedule of Adjusted Operations (SAO).³⁴ Simpson District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$2,518,487 and proposed an adjustment to decrease test-year water sales revenue by \$93,251 to reflect the revenues from water rates generated by the billing analysis.³⁵ Commission Staff notes that a portion of the decrease could be the result of some nonrecurring charges being recorded as Sales of Water. Commission Staff recommends the Commission accept the adjustments because the amounts are known and measurable.

(B) Billing Analysis – Fire Protection Sales. In its application, Simpson District proposed a \$156 decrease to Private Fire Protection³⁶ as a necessary reduction given that the Current Billing Analysis resulted in a revenue of \$41,547 for Private Fire Protection.³⁷ Commission Staff agrees with the proposed \$156 adjustment because it is known and measurable.

(C) Miscellaneous Service Revenues – Non-Recurring Charges. Simpson District provided the number of instances each nonrecurring charge was recorded during

³³ Application, Attachment 6, Attachment, Billing Analysis.

³⁴ Application, Attachment 4, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

³⁵ Application, Attachment 6, Attachment, Billing Analysis.

³⁶ Application, Attachment 4, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment B.

³⁷ Application, Attachment 4, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment B.

the test period,³⁸ as well as the cost justification sheets.³⁹ Commission Staff reviewed the responses, the cost justification sheets, and the general ledger. Commission Staff followed the Commission's precedent in removing field labor and office/clerical labor costs.⁴⁰ Using this information, as well as the current nonrecurring charge amounts listed in its current tariff, Commission Staff calculated a decrease of \$8,186. Commission Staff recommends the adjustment of \$8,186 to be accepted because the amount is known and measurable.

(D) Salaries and Wages - Employees. Simpson District pays the actual cost for field crews, engineering, and non-administrative personnel.⁴¹ In its application, Simpson District proposed an adjustment to increase Salaries and Wages – Employees by \$52,616,⁴² to reflect Warren District's current staff and the current wage rates.⁴³ The labor and equipment hours are tracked through Warren District's time card system and hours recorded by each employee is charged to the appropriate system.⁴⁴ Each system reimburses Warren District for the actual costs of these services on a monthly basis.⁴⁵ In addition Simpson District determined that the customer service employees are not

³⁸ Simpson District's Response to Staff's First Request, Item 15, Attachment at 19.

³⁹ Simpson District's Response to Staff's First Request, Item 15a, Attachment at 19.

⁴⁰ Case No. 2020-00141, Nov. 6, 2020 Order; Case No. 2020-00167, Dec. 3, 2020 Order; Case No. 2020-00196, Dec. 30, 2020 Order; and Case No. 2020-00195, Dec. 30, 2020 Order.

⁴¹ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

⁴² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment C.

⁴³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment C.

⁴⁴ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

⁴⁵ Simpson District's Response to Staff's First Request, Item 3, 3_Allocation_Methodology.pdf.

involved with the capital projects and therefore, on a going forward basis 100 percent of their hours will be expensed.⁴⁶ Simpson District provided the test year allocated employee position list with 55 full time employees who performed work during the test year,⁴⁷ allocated test year hours worked for Simpson District of 6,976 normal hours and 1,061 overtime hours,⁴⁸ and the current wage rates.⁴⁹ Commission Staff calculated proforma Salaries and Wages – Employees of \$281,272 which matched Simpson District's proposed increase of \$52,616.

Commission Staff recommends the Commission accept Commission Staff's \$52,616 increase to Salaries and Wages – Employee to reflect the normalization of test year Employee allocated hours at current salary wages.

(E) Employee Benefits – Payroll Tax Reclassification. In its Application, Simpson District proposed an adjustment to decrease Employee Benefits by \$20,531,⁵⁰ to reclassify payroll taxes to Taxes Other Than Income.⁵¹ Simpson District proposed to recalculate the payroll taxes in adjustment (N).⁵² Commission Staff agrees with Simpson

⁴⁶ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment C. Simpson District's Response to Staff's Second Request, Item 1a, 1.a_Proforma_Simpson.xlsx, Rows 77 – 80.

⁴⁷ Simpson District's Response to Staff's Second Request, Item 1a, 1.a_Proforma_Simpson.xlsx, Column C.

⁴⁸ Simpson District's Response to Staff's Second Request, Item 1a, 1.a_CY__2022_Simpson_District.xlsx, Cells F103 and I103.

⁴⁹ Simpson District's Response to Staff's Second Request, Item 1a, 1.a_Proforma_Simpson.xlsx, Column D.

⁵⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment D.

⁵¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment D.

⁵² Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment D.

District's proposed adjustment to remove payroll taxes from Employee Benefits in order to properly record payroll taxes in the proper expense account.

Commission Staff recommends the Commission accept Simpson District's proposed adjustment to reflect the reclassification of Payroll Taxes to the correct category.

(F) Employee Benefits – Insurance Premiums. In its application, Simpson District proposed an adjustment to increase Employee Benefits by \$783,⁵³ to reflect the pro forma level of employee benefits.⁵⁴ Simpson District currently provides 70 percent of employees' Health and Dental insurance premiums.⁵⁵ The Commission continues to review 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. The 30 percent current contribution amount is greater than the average percentage listed in the Bureau of Labor Statistics (BLS) report. According to the BLS, the average is 21 percent⁵⁶ for single health insurance premium employee contributions, and 33 percent⁵⁷ for family insurance premium contributions. Therefore, Commission Staff recommends the Commission accept Simpson District's contribution rate for single and family insurance premiums, as shown in the table below.

⁵³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment E.

⁵⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment E.

⁵⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment E.

⁵⁶ Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁵⁷ Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

Simpson District did not provide any evidence related to a wage or salary study or any other reason to vary from Commission’s general findings related to employee benefits. Consistent with precedent,⁵⁸ Commission Staff reduced Simpson District’s contribution amount toward dental insurance premiums to 60 percent⁵⁹ Willis Benchmarking average contribution level.

Simpson District provided the most recent copy of Warren District’s health and dental insurance invoices, including current premium levels and number of employees enrolled.⁶⁰ From the total insurance paid by Warren District, Commission Staff allocated to Simpson District 5.63 percent, based upon the allocation methodology of allocated hours worked⁶¹ of total Employee Hours Worked, as shown in the following table.

Description	Hours Worked
Allocated Employee Hours	8,085
Total Employee Hours (69 employees x 2,080 annual Hours)	143,520
Allocation Factor	<u>5.63%</u>

Accordingly, utilizing the current invoice amount, Commission Staff calculated a pro forma Insurance premium amount of \$27,187 which is \$5 less than the test year’s

⁵⁸ Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024), Order at 14–15.

⁵⁹ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and *The Willis Benchmarking Survey, 2015*, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

⁶⁰ Simpson District’s Response to Staff’s Second Request, Item 8, 8_Medical_and_Dental_Invoice.pdf.

⁶¹ Simpson District’s Response to Staff’s Second Request, Item 1a, 1a_Proforma_Simpson.xlsx, Cell F103 Allocated Regular Hours 6,976 +Cell I103 Allocated Overtime Hours 1,061 = 8,038.

\$27,192,⁶² and \$788 less than Simpson District’s proposed increase of \$783; as shown in the following table.

Type of Premium	Number of Employees	Employer Contributions	Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Medical Insurance					
Employee Only (E)	46	\$ 27,514	30%	\$ (8,254)	\$ 19,260
Employee/Spouse (ES)	8	8,699	30%	(2,610)	6,089.00
Employee/Children (EC)	4	3,828	30%	(1,148)	2,680.00
Family (F)	10	15,049	30%	(4,515)	10,534.00
Dental Insurance					
Employee Only (E)	35	1,063	60%	(638)	425.00
Employee/Spouse (ES)	10	630	60%	(378)	252.00
Employee/Children (EC)	5	370	60%	(222)	148.00
Family (F)	20	2,081	60%	(1,249)	832.00
Total Pro Forma Monthly Premium		59,234		(19,014)	40,220
Times: 12 Months		12		12	12
Total Annual Pro Forma Insurance Premium		<u>\$ 710,808</u>		<u>\$ (228,168)</u>	482,640
Multiplied by Allocation Percentage					5.63%
Total Allocated Insurance Premiums					27,187
Less: Test Year Insurance ()					(27,192)
Employee Benefits Adjustment					(5)
Less: Simpson District’s Recommended Adjustment ()					(783)
Final Pro Forma Employee Benefits Adjustment					<u>\$ (788)</u>

Commission Staff recommends the Commission accept Commission Staff’s \$5 decrease to Employee Benefits; to reflect the reduction of employer insurance contributions to the average BLS and Willis benchmarking levels as well as changes in insurance premiums.

(G) Employee Pension – 401(k). Warren District provides its employees with a private pension fund and 401(k) benefit.⁶³ In its application, Simpson District proposed an adjustment increasing Employee Pensions by \$11,996,⁶⁴ to account for the increase

⁶² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations table.

⁶³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment F.

⁶⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment F.

in pro-forma Salaries and Wages - Wages subsequent to the test year.⁶⁵ Warren District contributes 7 percent of the Employee’s Gross Salaries Expense for all full time employees, not including bonuses, into the 401(k),⁶⁶ and 12.83 percent to the pensions.⁶⁷

Utilizing the pro forma Salaries and Wages – Employees of \$281,272 calculated in adjustment (D) and Simpson District’s contribution rates, Commission Staff calculated a Pro Forma Employee Pension contribution of \$55,776. Therefore, Commission Staff agrees with Simpson District’s proposed adjustment increasing Employee Pensions and Benefits by \$11,996, as shown in the following table.

Description	Pro Forma Employee Salaries & Wages	Employer Contribution Rates	Total
401(k) Contribution	\$ 281,272	7.00%	\$ 19,689
Pension	281,272	12.83%	36,087
Pro Forma Employee Pensions		19.83%	55,776
Less: Test-Year Employee Pensions ()			(43,780)
Commission Staff's Proposed Adjustment			<u>\$ 11,996</u>

Commission Staff recommends the Commission accept the proposed adjustment to reflect the increase in employee retirement benefits based upon Employee Salaries and Wages.

(H) Purchased Water Expense – Normalization. During the test year, Simpson District reported a Purchased Water expense of \$1,216,129.⁶⁸ Also during the test year,

⁶⁵ Application, Attachment 4, Adjustment F.

⁶⁶ Simpson District’s Response to Staff’s First Request, Item 5, 5_Simpson_County_Rate_Model, Pension & Benefits Tab, Cell E32.

⁶⁷ Simpson District’s Response to Staff’s First Request, Item 5, 5_Simpson_County_Rate_Model, Pension & Benefits Tab, Cell E33.

⁶⁸ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

Simpson District filed and received a Purchase Water Adjustment,⁶⁹ therefore, the current rate is .00271.⁷⁰ Commission Staff calculated the pro forma cost based on the current purchased rate.⁷¹ Commission Staff's calculation results in a \$81,507 decrease to Purchased Water Expense as shown in the following table.

Description	Gallons Purchased	Cost Per Gallon	Total
White House Utility District (TN)	418,371,000	\$ 0.00271	\$ 1,134,622
Less: Test Year Purchased Water ()			(1,216,129)
Purchased Water Adjustment			<u>\$ (81,507)</u>

Commission Staff recommends the Commission accept Commission Staff's \$81,507 decrease to Purchased Water Expense to reflect the normalization of test year purchased water expenses at current rates.

(I) Water Loss in Excess of 15 Percent. In its application, Simpson District proposed adjustments to decrease Purchased Water expense by \$1,143, and Purchased Power expense by \$29,⁷² to reflect the expense for water loss in excess of 15 percent.⁷³ During the test year, Simpson District reported water loss of 15.0943 percent.⁷⁴ As noted earlier in the report, Commission regulations prohibit the recovery of expenses for water loss in excess of 15 percent. Using the Purchased Water Expense calculated in Adjustment (G) of \$1,134,622, Commission Staff calculated a net decrease of \$1,069 to

⁶⁹ Case No. 2022-00390, *Electronic Purchased Water Adjustment Filing of Simpson County Water District*, (Ky. PSC Dec. 16, 2022) final Order.

⁷⁰Case No. 2022-00390, Dec. 16, 2022 final Order, Appendix A.

⁷¹ Case No. 2022-00390, Dec. 16, 2022 final Order.

⁷² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment G.

⁷³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment G.

⁷⁴ 2022 Simpson Annual Report at 57.

Purchased Water expense, which is \$74 less than proposed by Simpson District. Commission Staff also calculated a net decrease of \$29 to Purchased Power expense as shown in the following table.

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 1,134,622	\$ 30,953	\$ 1,165,575
Multiply by: Water loss in Excess of 15 Percent	0.0943%	0.0943%	0.0943%
Excess Cost	(1,069)	(29)	(1,098)
Less: Proposed Adjustment ()	1,143	29	1,172
Commission Staff's Adjustment	\$ 74	\$ -	\$ 74

Commission Staff recommends the Commission accept Commission Staff's \$1,069 decrease to Purchased Water Expense and Commission Staff's \$29 decrease to Purchased Power expense; to reflect the reduction in purchased power and chemical expenses due to excess water loss above 15 percent.

(J) Depreciation Expense – Adoption of NARUC Service Lives. In its application, Simpson District reported a test year Depreciation Expense of \$700,686.⁷⁵ Simpson District also reported that during 2022, they adopted to using the midpoint of the National Association of Regulatory Utility Commissioners (NARUC) study titled *Depreciation Practices for Small Water Utilities* (NARUC Study).⁷⁶ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Upon examination, Commission Staff agrees with Simpson District's transition. Before the

⁷⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

⁷⁶ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment H.

additional proposed adjustments discussed below, Commission Staff calculated a Depreciation Expense of \$711,721. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff proposed an increase to Simpson District's Depreciation Expense of \$11,035, as shown in the following table:

Categories	NARUC Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
3044 Structures & Improvements	35 - 40	\$ 56	\$ -	\$ 56
3045 Structures & Improvements - Warehouses	35 - 40		-	-
3112 Electric Pumping Equipment	20	91,449	58,042	149,491
3304 Standpipes - Reservoirs and Tanks	35 - 45	105,346	(39,053)	66,293
3314 Transmission & Distribution Mains	50 - 75	220,127	1,057	221,184
3324 SCADA - Communication Equipment	10	27,372	13	27,385
3334 Meters Services	30 - 50	43,766	1,110	44,876
3344 Meters - Radio Read Meters	20	74,126	-	74,126
3344 Meters AMR Meters	20	67,093	5,112	72,205
3345- Meter Installations	40 - 50	23,264	663	23,927
3354 Hydrants	50	12,981	76	13,057
3392 Other Pumping Equipment	25	-	24	24
3400 Software Billing System - Office Equipment	20 - 25	18,043	(3,025)	15,018
3401 Hardware Billing System - Office Equipment	20 - 25	5,340	(4,709)	631
3405 Furniture & Office Equipment	20 - 25	256	(24)	232
3415 Transportation Equipment	7	-	367	367
3435 Tools, Shop & Garage Equipment	15 - 20	1,193	(392)	801
3465 Communications Equipment	10	2,048	-	2,048
Total		<u>\$ 692,460</u>	<u>\$ 19,261</u>	711,721.00
Less: Butler Water's Test Year Depreciation Expense ()				(700,686.00)
Commission Staff's Proposed Adjustment				<u>\$ 11,035</u>

Commission Staff recommends the Commission accept Commission Staff's \$11,035 increase to Depreciation expense; to reflect the adoption of the NARUC midpoint service lives for fixed assets.

(K) Depreciation Expense – Fully Depreciated Assets. In 2022, Simpson District adopted the mid-point of the NARUC Study.⁷⁷ In its application, Simpson District

⁷⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment H.

proposed a decrease to Depreciation expense of \$155,930,⁷⁸ to reflect the one-time adjustment to depreciation expense resulting from assets that exceed the remaining service lives after Simpson District started using the NARUC Study.⁷⁹ Since the conversion to the NARUC midpoint methodology was a one-time occurrence, and not likely to reoccur in the future; Commission Staff agrees with reducing Depreciation Expense of \$155,930 as shown in the following table:

Account Number	Account Title	2022 Adjustment to NARUC
3044	Structures & Improvements	\$ 56
3112	Electric Pumping Equipment	45,043
3304	Standpipes - Reservoirs and Tanks	1,217
3324	SCADA - Communication Equipment	25,282
3334	Meters Services	9,356
3344	Meters - Radio Read Meters	74,126
3345	Meter Installations	850
Total Depreciation Adjustment		<u>\$ 155,930</u>

Commission Staff recommends the Commission accept Commission Staff's \$155,930 decrease to Depreciation Expense; to reflect the one-time adjustment for account for fully depreciated assets due to the conversion to the NARUC midpoint methodology.

(L) Depreciation Expense – Post Test Year Asset Additions. In its application, Simpson District proposed an adjustment to increase Depreciation Expense by \$82,024,⁸⁰ to reflect depreciation of its post-test year plant additions over the appropriate

⁷⁸ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment H.

⁷⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment H.

⁸⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment I.

NARUC depreciation lives.⁸¹ Simpson District provided a list of its fixed asset list used to generate the depreciation schedule,⁸² as well as the projects and assets that were added post test-year.⁸³ Commission Staff agrees with the inclusion of post-test year asset additions, since the proposed rates will need to be sufficient to recover the cost for the depreciation of these assets on a going forward basis. However, Commission Staff disagrees with some of the proposed useful lives and changed them to reflect the NARUC study's useful lives. Therefore, Commission Staff proposes an increase to Depreciation expense of \$76,999, which is \$5,025 less than the \$82,024 proposed by Simpson District, as shown in the following table.

Project Description	NARUC Asset Class	Total Project	Depreciation Lives	Annual Depreciation	Completion Date
SCADA Replacement	Communication Equipment	\$ 609,700	10.0	\$ 60,970	In-Progress
Botanical Gardens Line Extension	Transmission and Distribution Mains	270,615	62.5	4,330	12/31/2023
Cross Creek Commons Line Extension	Transmission and Distribution Mains	212,990	62.5	3,408	12/31/2023
Fire Service Installations (3)	Fire Mains	60,948	62.5	975	2023
Truck - Dodge Ram 4WD	Transportation Equipment	39,805	7.0	5,686	12/31/2022
Fisher Contracting Line Extension	Transmission and Distribution Mains	27,750	62.5	444	12/31/2023
Citworks Software Implementation	Office Furniture and Equipment	26,694	22.5	1,186	12/31/2023
Totals		<u>\$ 1,248,502</u>		<u>76,999</u>	
Less: Simpson District's Proposed Adjustment ()				<u>(82,024)</u>	
Commission Staff's Proposed Adjustment				<u>\$ (5,025)</u>	

Commission Staff recommends the Commission accept Commission Staff's \$76,999 increase to Depreciation Expense; to reflect the inclusion of post-test year asset additions.

(M) Depreciation Expense – Badger M25 Radio Read Meters. In the application, Simpson District proposed an adjustment to increase Depreciation Expense

⁸¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment I.

⁸² Simpson District's Response to Staff's First Request, Item 16, 16_Depreciation.xlsx.

⁸³ Simpson District's Response to Staff's First Request, Item 5, 5_Simpson_County_Rate_Model.xlsx, Dep Adj Tab.

by \$41,654,⁸⁴ to reflect the reduction of the estimated useful service lives for the Badger 5/8-Inch M25 AMR meters from 20 years to 10 years.⁸⁵ Simpson District has approximately 213 Badger M25 meters.⁸⁶ Simpson District reported that the 20-year service life for the Badger M25 meters was established based the performance of a similar meter utilized by Warren District, Butler County Water, and Simpson District, the Sensus SR11, which maintains accuracy beyond 20 years.⁸⁷ Simpson District reported that in March 2023, 64.6 percent of Badger M25 meters in service for ten years failed the American Waters Works Association (AWWA) meter accuracy testing among the three water utilities under the joint operation agreement.⁸⁸

Water System	Total	Passed	Failed	Failure Percent
Warren	39	12	27	69.23%
Butler	2	1	1	50.00%
Simpaon	7	4	3	42.86%
Total	48	17	31	64.58%

Between January and July 2023, 422 other Badger M25 meters were tested after nine years of service and only 21.8 percent failed accuracy standards, as shown in the following table.⁸⁹

⁸⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment J.

⁸⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment J.

⁸⁶ Simpson District's Response to Staff's Third Request, Item 2, Attachment, 2.a,b,c_Fixed_Asset_Spreadsheet.xlsx.

⁸⁷ Simpson District's Response to Staff's Second Request, Item 5.

⁸⁸ Simpson District's Response to Staff's Second Request, Item 5.

⁸⁹ Simpson District's Response to Staff's Second Request, Item 5.

Age	Total	Passed	Failed	Failure Percent
Less than 1	21	21	-	0.00%
1	41	41	-	0.00%
2	24	24	-	0.00%
3	30	30	-	0.00%
4	28	25	3	10.71%
5	16	15	1	6.25%
6	25	21	4	16.00%
7	34	34	-	0.00%
8	33	32	1	3.03%
9	155	75	80	51.61%
10	15	12	3	20.00%
Total	422	330	92	21.80%

Simpson District also reported that the Badger M25 Meters were purchased with a 15-year warranty.⁹⁰ Simpson District stated that setting these meters to a 15-year useful life would not be reasonable.⁹¹ Simpson District stated that, for the Badger M25, test data indicates a substantial number of meters will fail around ten years of age. If a 15-year useful life is applied, meters failing at ten years will have residual book values.⁹² Simpson District stated it would be required to write off the residual value and record a disposition loss as Badger M25 meters are removed from service.⁹³

Simpson District plans to replace failing meters with ultrasonic meters.⁹⁴ Simpson District stated that these are becoming an industry standard and provide improved

⁹⁰ Simpson District's Response to Staff's Second Request, Item 6. See also Case No 2024-00061, *Electronic Application of Butler County Water System, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (issued Aug. 28, 2024), Commission Staff Report.

⁹¹ Simpson District's Response to Staff's Third Request, Item 4.

⁹² Simpson District's Response to Staff's Third Request, Item 4.

⁹³ Simpson District's Response to Staff's Third Request, Item 4.

⁹⁴ Simpson District's Response to Staff's Third Request, Item 7.

accuracy and lower maintenance.⁹⁵ Simpson District reported that Pilot programs were installed with small quantities of meters from various manufacturers, and their performance is being monitored.⁹⁶ Simpson District stated it will issue a Request for Proposals specifying the purchase of ultrasonic meters.⁹⁷

In year 2023, Simpson District discontinued the use of Badger M25 5/8” and began installing Kamstrup Ultrasonic 5/8” meters. As of July 15, 2024, the number of Kamstrup Ultrasonic 5/8” meters in service totaled 60 meters.⁹⁸ In year 2024, Simpson District installed Master Meter Sonata Ultrasonic 5/8” meters in addition to the Kamstrup meters and as of July 15, 2024, Simpson District reported that the number of Master Meter Sonata Ultrasonic 5/8” meters in service totaled five.⁹⁹ Simpson District stated that the other water meters it uses maintain accuracy, with only 5.47 percent failing accuracy tests after 20 years.¹⁰⁰ Given the failure rates of the Badger M25 meters, Commission Staff agrees with Simpson District’s statement that a 20-year service life is overstating the life expectancy of the Bader M25 meters.¹⁰¹ Commission Staff agrees with Simpson District’s the proposed adjustment to reduce the Depreciation service lives for only the Bader M25 Meters from the projected 20 years to 10 years. Therefore, Commission Staff agrees with the proposed increase to Depreciation expense of \$41,654.

⁹⁵ Simpson District’s Response to Staff’s Third Request, Item 7.

⁹⁶ Simpson District’s Response to Staff’s Third Request, Item 7.

⁹⁷ Simpson District’s Response to Staff’s Third Request, Item 7.

⁹⁸ Simpson District’s Response to Staff’s Third Request, Item 2d.

⁹⁹ Simpson District’s Response to Staff’s Third Request, Item 2d.

¹⁰⁰ Simpson District’s Response to Staff’s Third Request, Item 3.

¹⁰¹ Simpson District’s Response to Staff’s Second Request, Item 5.

Commission Staff recommend the Commission accept Commission Staff's agreement with Simpson District's proposed \$41,654 increase to Depreciation Expense; to reflect the reduction of Badger M25 meter's useful lives from 20 to 10 years.

(N) Taxes other than Income – Federal Insurance Contributions Act (FICA). In the application, Simpson District proposed an adjustment to increase Taxes Other Than Income by \$22,343,¹⁰² to account for changes in Payroll taxes as a result of changes to Salaries and Wages – Employees.¹⁰³ As discussed in adjustment (D), Commission Staff agreed with Simpson District's proposal to remove Payroll taxes from Employee Benefits. As stated above, Commission Staff agreed with Simpson District's calculation of pro forma Salaries and Wages – Employees of \$281,272, and Salaries and Wages – Officers of \$10,800.¹⁰⁴ Therefore, Commission Staff agrees with Simpson District's proposed adjustment to Taxes other than Income, since the calculation is a direct result of changes to Salaries and Wages – Employees, resulting in pro forma payroll taxes increase of \$22,343 and a pro forma Taxes Other Than Income of \$26,259, as shown in the following table.

¹⁰² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment K.

¹⁰³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment K.

¹⁰⁴ Simpson District's Response to Staff's First Request, Item 9.

Description	Amount
Salaries and Wages - Employees	\$ 281,272.0
Salaries and Wages - Officers	10,800
Total Pro Forma Salaries	292,072
Times: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	22,343
Plus: PSC Assessment	3,916
Total Taxes Other Than Income	26,259
Less: Test Year Taxes other than Income ()	(3,916)
Total Taxes Other Than Income Adjustment	\$ 22,343

Commission Staff recommend the Commission accept Simpson District's \$22,343 increase to Taxes other than Income; to reflect the payroll taxes due to changes in Salaries and Wages - Employees.

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations.¹⁰⁵ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working

¹⁰⁵ Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022). Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

capital;¹⁰⁶ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

Description	Simpson District	Commission Staff
Pro Forma Operating Expenses	\$ 2,586,423	\$ 2,510,138
Plus: Avg. Annual Principal and Interest Payments	198,881	202,873
Additional Working Capital	39,776	40,575
Total Revenues Requirement	2,825,080	\$ 2,753,585
Plus: Losses from Disposal of Utility Property		4,977
Less: Other Operating Revenue ()	(93,975)	(85,789)
Less: Interest and Dividend Income ()	(14,635)	(19,115)
Less: Nonutility Income ()	(7,790)	(7,879)
Revenue Required From Water Sales	2,708,680	2,645,779
Less: Revenue from Sales at Present Rates ()	(2,560,034)	(2,560,034)
Required Revenue Increase	<u>\$ 148,646</u>	<u>\$ 85,745</u>
Percentage Increase	<u>5.81%</u>	<u>3.35%</u>

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Simpson District had one U.S. Department of Agriculture's

¹⁰⁶ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

(USDA) Loan¹⁰⁷ and one Kentucky Rural Water Finance Corporation (KRWFC) loan.¹⁰⁸

In its application, Simpson District requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the five years following the test year, which is 2024 through 2028.¹⁰⁹ However, because the statutory date for a final Order to be issued in this proceeding is January 21, 2025, the 2024 debt service payments will be recovered through Simpson District’s existing rates. Therefore, only the debt service payments that will be made after the new rates are placed into effect should be considered in determining Simpson District’s Annual Principal and Interest Expense. Commission Staff calculated the average annual principal and interest on a five-year average for the years 2025 through 2029. As shown in the following table, Commission Staff calculated an Average Principal and Interest expense of \$202,873.

Debt Issuance	2025		2026		2027		2028		2029		Total
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	
USDA Loan 91-09	\$ 28,000	\$26,409	\$ 28,500	\$25,880	\$ 29,000	\$25,341	\$ 29,500	\$24,792	\$ 30,000	\$24,234	\$ 271,656
KRWFC Series 2021A	110,000	37,550	115,000	32,769	120,000	27,775	125,000	22,569	135,000	17,044	742,707
Total	\$138,000	\$63,959	\$143,500	\$58,649	\$149,000	\$53,116	\$154,500	\$47,361	\$165,000	\$41,278	1,014,363
Divided by: 5 years											5
Average Annual Principal and Interest Payments											<u><u>\$ 202,873</u></u>

¹⁰⁷ Case No. 2019-00395, *Electronic Application of Simpson County Water District, (A) for a Certificate of Public Convenience and Necessity, Pursuant to KRS 278.020 and 278.023, Authorizing Said District to Construct Improvements and Extensions to its Existing Water System Which Improvements and Extensions will be Financed in Part Under Terms of an Agreement Between the Water District and the United States Department of Agriculture; Rural Development, (B) for Authority to Issue Certain Securities as Required by 278.300; and (C) for Approval of Water Rates and Charges*, (Ky. PSC Nov. 26, 2019).

¹⁰⁸ Case No. 2021-00014, *Electronic Application of the Simpson County Water District to Issue Securities in the Approximate Principal Amount of \$1,620,000 for the Purpose of Refunding and Reamortizing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Mar. 24, 2021).

¹⁰⁹ Simpson District’s Response to Staff’s First Request, Item 5, 5_Simpson_County_Rate_Model, Debt Sch Tab.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Simpson District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its loans at the time of its application for a total of \$39,776.¹¹⁰

Following the Commission's historic practice,¹¹¹ Commission Staff agrees with Simpson District's methodology. Therefore, when the change from 2024 through 2028 to 2025 through 2029 is taken into account, \$40,575 is included in the revenue requirement as shown in the following table:

Average Annual Principal and Interest	\$ 202,873
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	<u>243,447</u>
Less: Average Annual Principal and Interest Payments	(202,873)
Additional Working Capital	<u><u>\$ 40,575</u></u>

3. Interest Income and Nonutility Income. In the Application, Simpson District recorded \$14,635 for its test year Interest and Dividend Income and \$7,790 for Nonutility Income.¹¹² However, Simpson District reported that these amounts were from 2021

¹¹⁰ Simpson District's Response to Staff's First Request, Item 5, 5_Simpson_County_Rate_Model, SAO-DSC Tab, Cell L52.

¹¹¹ Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Nov. 17, 2023). Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024). Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).

¹¹² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Revenue Requirements table.

instead of the test year.¹¹³ Commission Staff updated these figures to represent the test year amounts. Therefore, Interest Income was updated to \$19,115,¹¹⁴ and Nonutility Income was updated to \$7,879.¹¹⁵

¹¹³ Simpson District's Response to Staff's First Request, Item 13a and 13b.

¹¹⁴ Simpson District's Response to Staff's First Request, Item 13a.

¹¹⁵ Simpson District's Response to Staff's First Request, Item 13b.

Signatures

/s/ William Foley

Prepared by: William Foley
Revenue Requirement Branch
Division of Financial Analysis

/s/ Manuel Jerez Tamayo

Prepared by: Manuel Jerez Tamayo
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00068 DATED SEP 05 2024

* Denotes Rounding

Nonrecurring Charges Adjustments

SERVICE CONNECTION		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (0.76 Hours x \$ 35.86)	\$27.17	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor (0.42 Hours X \$ 33.22)	\$13.95	\$0.00
Transportation (0.76 Hours X \$ 10.00)	\$7.58	\$7.58
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$48.70	\$8.00
Current Rate	\$25.00	

SERVICE CONNECTION-AFTER HOURS		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (0.76 Hours x \$ 53.78)	\$40.75	\$40.75
Office Supplies	\$0.00	\$0.00
Office Labor (0.42 Hours X \$ 33.22)	\$13.95	\$0.00
Transportation (0.76 Hours X \$ 10.00)	\$7.58	\$7.58
Misc. (Combined Communications - After Hour Call Service)	\$8.97	\$8.97
Total Revised Charge*	\$71.25	\$57.00
Current Rate	\$65.00	

DELINQUENT SERVICE		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1.12 Hours x \$ 44.04)	\$92.58	\$0.00
Office Supplies	\$1.11	\$1.11
Office Labor (0.20 Hours x \$ 33.22)	\$6.63	\$0.00
Transportation (1.12 Hours x \$ 10.00)	\$15.35	\$15.35
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$115.67	\$16.00

Current Rate \$25.00

METER READING RECHECK

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (0.79 Hours x \$ 39.42)	\$30.99	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor (0.33 Hours X \$ 33.22)	\$11.07	\$0.00
Transportation (0.79 Hours X \$ 10.00)	\$7.86	\$7.86
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$49.92</u>	<u>\$8.00</u>
Current Rate	\$25.00	

SERVICE INVESTIGATION

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1.16 Hours x \$ 47.51)	\$55.32	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor (0.23 Hours X \$ 33.22)	\$7.75	\$0.00
Transportation (1.16 Hours X \$ 10.00)	\$11.64	\$11.64
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$74.71</u>	<u>\$12.00</u>
Current Rate	\$25.00	

SERVICE INVESTIGATION-AFTER HOURS

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1.16 Hours x \$ 71 .27)	\$82.98	\$82.98
Office Supplies	\$0.00	\$0.00
Office Labor (0.23 Hours X \$ 33.22)	\$7.75	\$0.00
Transportation (1.16 Hours X \$ 10.00)	\$11.64	\$11.64
Misc. (Combined Communication After Hours Call Service)	\$8.97	\$8.97
Total Revised Charge*	<u>\$111.34</u>	<u>\$104.00</u>
Current Rate	\$65.00	

METER TEST REQUEST

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1.75 Hours x \$ 41.05)	\$71.84	\$0.00

Office Supplies	\$0.00	\$0.00
Office Labor (0.13 Hours X \$ 33.22)	\$4.43	\$0.00
Transportation (0.50 Hours X \$ 10.00)	\$5.00	\$5.00
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$81.27</u>	<u>\$5.00</u>
Current Rate	\$50.00	

METER INVESTIGATION

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (0.95 Hours x \$ 44.17)	\$41.74	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor (1.22 Hours X \$ 33.22)	\$40.41	\$0.00
Transportation (0.945 Hours X \$ 10.00)	\$9.45	\$9.45
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$91.60</u>	<u>\$9.00</u>
Current Rate	\$75.00	

RETURNED CHECK

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor (0.60 Hours X \$ 33.22)	\$19.93	\$0.00
Transportation	\$0.00	\$0.00
Misc. (Bank Fee - Returned Check)	\$5.00	\$5.00
Total Revised Charge*	<u>\$24.93</u>	<u>\$5.00</u>
Current Rate	\$25.00	

SERVICE LINE INSPECTION

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1.16 Hours x \$ 47.51)	\$55.03	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor (0.2333 Hours X \$ 33.22)	\$7.75	\$0.00
Transportation (1.1583 Hours X \$ 10.00)	\$11.58	\$11.58
Misc.	\$0.00	\$0.00
Total Revised Charge*	<u>\$74.36</u>	<u>\$12.00</u>

Current Rate

\$50.00

Tap-On Fee 5/8-Inch x 3/4-Inch Meter		
	Utility Revised Charge	Staff Revised Charge
Materials Expense	\$801.34	\$801.34
Service Pipe Expense	\$11.20	\$11.20
Installation Labor Expense	\$434.07	\$434.07
Installation Equipment Expense	\$161.69	\$161.69
Installation Miscellaneous Expense	\$42.50	\$42.50
Overhead Expense	\$131.43	\$131.43
Administrative Expense	\$64.65	\$64.65
Total Revised Charge*	<u>\$1,646.88</u>	<u>\$1,647.00</u>
Current Rate	\$1,600.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00068 DATED SEP 05 2024

The following rates and charges are recommended by Commission Staff based on the adjustments in Commission Staff's Report for the customers in the area served by Simpson County Water District. All other rates and charges not specifically mentioned herein are recommended to remain the same.

Monthly Rates

5/8-Inch Meter

First	2,000 Gallons	\$18.43	Min. Bill
Next	8,000 Gallons	0.00667	per Gallon
Next	190,000 Gallons	0.00597	per Gallon
Next	400,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

3/4-Inch Meter

First	3,000 Gallons	\$25.68	Min. Bill
Next	7,000 Gallons	0.00667	per Gallon
Next	190,000 Gallons	0.00597	per Gallon
Next	400,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

1-Inch Meter

First	5,000 Gallons	\$39.57	Min. Bill
Next	5,000 Gallons	0.00667	per Gallon
Next	190,000 Gallons	0.00597	per Gallon
Next	400,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$79.70	Min. Bill
Next	190,000 Gallons	0.00597	per Gallon
Next	400,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

2-Inch Meter

First	16,000 Gallons	\$117.23	Min. Bill
Next	184,000 Gallons	0.00597	per Gallon

Next	400,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

3-Inch Meter

First	30,000 Gallons	\$231.49	Min. Bill
Next	170,000 Gallons	0.00597	per Gallon
Next	400,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

4-Inch Meter

First	50,000 Gallons	\$357.69	Min. Bill
Next	150,000 Gallons	0.00597	per Gallon
Next	400,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

6-Inch Meter

First	100,000 Gallons	\$672.10	Min. Bill
Next	100,000 Gallons	0.00597	per Gallon
Next	400,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

8-Inch Meter

First	160,000 Gallons	\$1,053.02	Min. Bill
Next	40,000 Gallons	0.00597	per Gallon
Next	400,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

10-Inch Meter

First	550,000 Gallons	\$3,264.10	Min. Bill
Next	50,000 Gallons	0.00559	per Gallon
Over	600,000 Gallons	0.00414	per Gallon

Private Fire Service Rates:

1-Inch	\$10.72
1.5- Inch	\$18.04
2-Inch	\$27.94
3-Inch	\$70.13
4-Inch	\$147.75
6-Inch	\$367.49
8-Inch	\$736.98
10-Inch	\$1,295.35

Nonrecurring Charges

Service Connection	\$8.00
Service Connection-After Hours	\$57.00
Delinquent Service	\$16.00
Meter Reading Recheck	\$8.00
Service Investigation	\$12.00
Service Investigation-After Hours	\$104.00
Meter Test Request	\$5.00
Meter Investigation	\$9.00
Returned Check	\$5.00
Service Line Inspection	\$12.00

Tap-On Fee

5/8-Inch x 3/4-Inch Meter	\$1,647.00
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