

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EAST DAVIESS)	
COUNTY WATER ASSOCIATION, INC. FOR A)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR)	2023-00025
5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is given that, in accordance with the Commission's Order of February 20, 2023, the attached report containing the findings 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 February 20, 2023, Order, East Daviess County Water Association, Inc. (East Daviess Water) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of service of this report. The Commission directs East Daviess Water 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 JUN 27 2023

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 EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

East Daviess County Water Association (East Daviess Water) is a water utility organized pursuant to KRS Chapter 273 that owns and operates a water distribution system through which it provides retail water service to approximately 4,766 residential customers, 104 commercial customers, 13 industrial customers, and 4 public fire protection organizations that reside in Daviess, Hancock, and Ohio counties, Kentucky.¹

On February 4, 2023,² East Daviess Water filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,³ East Daviess Water used the calendar year ended December 31, 2021, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2022-00112, which

¹ *Annual Report of East Daviess Water to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 49.

² East Daviess Water tendered its application on February 3, 2023. By letter dated February 3, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on February 4, 2023.

³ 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.

required East Daviess Water to file either an application for an adjustment of its base rates, or a statement, supported by a detailed analysis, of the reasons why a rate adjustment was unnecessary by June 2, 2025.⁴ East Daviess Water's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2016-00177.⁵ Since that matter, East Daviess Water has only adjusted rates through purchased water adjustments.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated February 20, 2023. Commission Staff's First Request for Information (Staff's First Request) was issued as Appendix B to the Commission's February 20, 2023 Order with a response due date of March 27, 2023. East Daviess Water filed its response to Staff's First Request on March 24, 2023. Commission Staff's Second Request for Information (Staff's Second Request) was issued on April 7, 2023, with a response due date of April 24, 2023. East Daviess Water filed its response to Staff's Second Request on April 24, 2023.

WATER LOSS

The Commission notes that in its 2021 Annual Report, East Daviess Water reported a water loss of 15.68 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

⁴ Case No. 2022-00112, *Electronic Purchased Water Adjustment Filing of East Daviess County Water Association, Inc.* (Ky. PSC June 2, 2022), ordering paragraph 5.

⁵ Case No. 2016-00177, *Electronic Alternative Rate Filing of East Daviess County Water Association, Inc.* (Ky. PSC Oct. 11, 2016).

⁶ 2021 Annual Report at 57.

operations. The table below shows that annual cost of water loss to East Daviess Water is \$161,843, while the annual cost of water loss in excess of 15 percent is \$6,974.

Total Water Loss	Purchased Water	Power	Total
Pro Forma Purchases	\$ 988,659	\$ 43,803	\$ 1,032,462
Water Loss Percent	15.6755%	15.6755%	
Total Water Loss	\$ 154,977	\$ 6,866	\$ 161,843

Excess Water Loss	Water	Power	Total
Pro Forma Purchases	\$ 988,659	\$ 43,803	\$ 1,032,462
Water Loss in Excess of 15%	0.6755%	0.6755%	
Disallowed Water Loss	\$ 6,678	\$ 296	\$ 6,974

DISCUSSION

Using its pro forma test-year operations, East Daviess Water determined that a base rate revenue increase of \$197,432, or 9.27 percent, was necessary to achieve the revenue requirement as shown in the table below.⁷

Pro Forma Operating Expenses	\$ 2,110,086
Operating Ratio	<u>88%</u>
Sub-total	2,397,825
Plus: Interest Expense	<u>13,845</u>
Total Revenue Requirement	2,411,670
Less: Other Operating Revenue	(84,933)
Interest Income	<u>0</u>
Revenue Required From Sales of Water	2,326,737
Less: Revenue from Sales with Present Rates	(2,106,857)
Sales for Resale	<u>(22,449)</u>
Required Revenue Increase	<u>\$ 197,432</u>
Percent Increase	<u>9.27%</u>

⁷ Application, Attachment 4, Revenue Requirements Using Operating Ratio Method.

To determine the reasonableness of the rates requested by East Daviess Water, Commission Staff performed a limited financial review of East Daviess Water'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 measurable⁸ 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 findings are summarized in this report. Noah Abner reviewed the calculation of East Daviess Water's Overall Revenue Requirement and Eddie Beavers reviewed East Daviess Water's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio method, as generally accepted by the Commission, Commission Staff found that East Daviess Water's required revenue from water sales is \$2,484,937 to meet the Overall Revenue Requirement of \$2,547,915 and that a \$184,156 revenue increase, or 8.00 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

⁸ 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).

2. Monthly Water Service Rates. East Daviess Water proposed to increase its monthly retail and wholesale water service rates by approximately 9.27 percent across the board. East Daviess Water has not performed a cost of service study (COSS).⁹ East Daviess Water stated that it did not complete a COSS at this time as there have been no material changes in the water system.¹⁰

The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.¹¹ Finding no such evidence in this case, Commission Staff followed the method previously accepted by the Commission and allocated the \$184,156 revenue increase evenly across the board to East Daviess Water's monthly retail and wholesale water service rates.

The rates, which are set forth in the Appendix 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 \$2,484,937 Revenue Required from Rates. The rates will increase a typical residential customer's monthly water bill from \$36.54 to \$39.46, an increase of \$2.92, or approximately 8.00 percent.¹²

⁹ East Daviess Water's Response to Staff's First Request (filed Mar. 24, 2023), Item 13 (a).

¹⁰ East Daviess Water's Response to Staff's First Request, Item 13(b) and 13(c).

¹¹ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

¹² The typical residential customer uses approximately 4,000 gallons per month. Application, Attachment 1.

3. Nonrecurring Charges. Following the Commission's recent decisions,¹³ Commission Staff reviewed East Daviess Water's nonrecurring charges. The Commission found that because district personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated to avoid double recovery of the same expense. Commission Staff reviewed the cost justification information provided by East Daviess Water in response to Staff's First Request and adjusted these charges by removing Field Labor Costs and Office/Clerical Labor costs that occur during normal business hours.¹⁴ The revisions that were provided included updating the wages for employees, the average hourly rate for the Field Labor Costs was approximately \$24.95 and the average hourly rate for the Office/Clerical Labor Costs was approximately \$21.99. The After Hour charges listed below include the Field Labor costs but the Office/Clerical Labor costs have been removed. The After Hours charges may be higher than the current charges as these are based upon the revised costs justification sheets filed in response to Staff's First Request.¹⁵ In their response to Staff's First request, East Daviess Water filed revised cost justification sheets for their 5/8 x 3/4 – inch Tap Fees and for their 5/8 x 3/4 – inch

¹³ 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).

¹⁴ East Daviess Water's Response to Commission Staff's First Request, Item 11.

¹⁵ East Daviess Water's Response to Commission Staff's First Request, Item 11.

Tap Fees Tandem Service as listed in the table below. These adjustments result in the following revised nonrecurring charges:

Connection Charge	\$24.00
Connection Charge After Hours	\$118.00
Cut Lock Charge	\$37.50
Meter Reread Charge	\$24.00
Meter Test Charge	\$24.00
Reconnection Charge	\$46.00
Reconnection Charge After Hours	\$139.00
Returned Check Charge	\$12.50
Service Call/Investigation Charge	\$24.00
Service Call/Investigation Charge After Hours	\$118.00
5/8 x 3/4 Tap Fee	\$1,350.00
5/8 x 3/4 Tap Fee Tandem Service	\$1,535.00

The revised nonrecurring charges result in a decrease to test year Miscellaneous Service Revenues and an increase to the total revenue requirement of \$10,040 as explained in Adjustment (B) below.

Description	Num.	Current Rate	Total	Revised Rate	Adj	Pro Forma
Miscellaneous Service Revenues:						
Connection Charge	414	\$35.00	\$14,490	\$24.00	(\$4,554)	\$9,936
Connection Charge After Hours	3	\$90.00	90	\$118.00	28	118
Cut Lock Charge	6	\$50.00	250	\$37.50	(63)	188
Meter Reread	0	\$25.00	0	\$24.00	0	0
Meter Test Charge	0	\$60.00	0	\$24.00	0	0
Reconnection Charge	230	\$50.00	11,515	\$46.00	(4,937)	6,578
Reconnection Charge After Hours	3	\$90.00	360	\$139.00	196	556
Returned Check Charge	26	\$20.00	700	\$12.50	(700)	0
Service Call/Investigation Charge	6	\$35.00	210	\$24.00	(66)	144
Service Call/Investigation Charge After Hours	<u>3</u>	<u>\$90.00</u>	<u>180</u>	<u>\$118.00</u>	<u>56</u>	<u>236</u>
Total Miscellaneous Service Revenues	<u>691</u>		<u>\$27,795</u>		<u>(\$10,040)</u>	<u>\$17,756</u>

PRO FORMA OPERATING STATEMENT

East Daviess Water's Pro Forma Operating Statement for the test year ended December 31, 2021, as determined by Staff appears in the table below.

	Test Year	East Daviess Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref.)	Pro Forma
Operating Revenues						
Total Metered Retail Sales	\$ 1,924,243	\$ 182,614	\$ 166,271	\$ 348,885	(A)	\$ 2,273,128
Private Fire Protection	1,140			0		1,140
Sales for Resale	17,843	4,606	4,064	8,670	(A)	26,513
Other Water Revenues:						
Forfeited Discounts	29,595			0		29,595
Miscellaneous Service Revenues	38,581		(20,826)	(20,826)	(B)	17,755
Other Water Revenues	16,757		(7,662)	(7,662)	(C)	9,095
Total Operating Revenues	2,028,159	187,220	141,847	329,067		2,357,226
Operating Expenses						
Operation and Maintenance Expenses						
Salaries and Wages - Employees	388,386	24,750		24,750	(D)	
		(16,136)		(16,136)	(E)	397,000
Salaries and Wages - Commissioners	15,500			0		15,500
Employee Pensions and Benefits	151,148	(33,569)	2,639	(30,930)	(F)	
		28,230	(33,050)	(4,820)	(F)	115,398
Purchased Water	650,219	150,653	187,787	338,440	(G)	
		(4,392)	(2,286)	(6,678)	(H)	981,981
Purchased Power for Pumping	43,803	(296)		(296)	(H)	43,507
Materials and Supplies	55,126	(37,650)		(37,650)	(E)	
		52,342	(675)	51,667	(I)	
		(3,949)		(3,949)	(I)	
		(350)		(350)	(I)	64,844
Contractual Services						
Accounting	29,270			0		29,270
Legal	89			0		89
Water Testing	6,123			0		6,123
Other	100,510	58,002	(17,260)	40,742	(J)	
			(17,260)	(17,260)	(J)	123,992
Transportation Expense	31,735			0		31,735
Insurance - Other	239			0		239
Insurance - Gen. Liab. & Workers Comp.	22,486	374		374	(K)	22,860
Insurance - Workers Compensation	5,762			0		5,762
Bad Debt Expense	9,375			0		9,375
Miscellaneous Expense	32,057			0		32,057
Total Operation and Maintenance Expenses	1,541,828	218,009	119,895	337,904		1,879,732
Amortization		4,555		4,555	(L)	4,555
Depreciation	239,075	75,015		75,015	(M)	314,090
Taxes Other Than Income	31,062	543		543	(D)	31,605
Total Operating Expenses	1,811,965	298,122	119,895	418,017		2,229,982
Interest Income	0		6,533	6,533	(N)	6,533
Total Utility Operating Income	\$ 216,194	\$ (110,902)	\$ 28,485	\$ (82,417)		\$ 133,777

(A) Billing Analysis Adjustment. East Daviess Water proposed an increase to its test-year revenues from metered retail water sales of \$182,614 and sales for resale of \$4,606 to reflect increases in rates made during the year of 2022 due to a purchase water

adjustment.¹⁶ Since the filing of this alternative rate adjustment application a second purchase water adjustment has increased rates.¹⁷ Commission Staff made adjustments of \$348,885 to metered retail water sales and \$8,670 to sales for resale to reflect the rate increases for both purchase water adjustments. Commission Staff included the adjustments in pro forma operating revenues.

(B) Miscellaneous Service Revenues. East Daviess Water reported test year Miscellaneous Service Revenues of \$38,581.¹⁸ East Daviess Water provided information regarding nonrecurring charges in its responses to Staff's First Request and Staff's Second Request. Commission Staff made a reduction to Miscellaneous Service Revenues of \$20,826, representing a \$10,040 adjustment to the nonrecurring charges as described above and a \$10,786 adjustment related to nonoperating revenues removed from the water service revenues.

(C) Other Water Revenues. East Daviess Water reported test year Other Water Revenues of \$16,757.¹⁹ After reviewing East Daviess Water's general ledger and trial balance for the year 2021 provided by East Daviess Water in its response to Staff's First Request, Commission Staff identified \$7,662 designated as Covid Relief.²⁰ Commission

¹⁶ Case No. 2022-00112, *Electronic Purchased Water Adjustment Filing of East Daviess County Water Association, Inc.* (Ky. PSC June 2, 2022).

¹⁷ Case No. 2023-00138, *Electronic Purchased Water Adjustment Filing of East Daviess County Water Association, Inc.* (Ky. PSC May 31, 2023).

¹⁸ Application, Attachment 4, Schedule of Adjusted Operations.

¹⁹ Application, Attachment 4, Schedule of Adjusted Operations.

²⁰ East Daviess Water's Response to Commission Staffs First Request, Item 1a, 1._(a)_2021_Ledger_Analysis.xls.

Staff made an adjustment of \$7,622 to Other Water Revenues to remove the Covid Relief revenue that is not going to recur.

(D) Salaries and Wages - Employees. In its application, East Daviess Water proposed an increase of \$24,750 to Salaries and Wages – Employees expense and an increase \$534 to Taxes Other Than Income expense to reflect increases in wage rates since 2021.²¹ East Daviess Water stated that the increase in wages is due to employee turnover and an additional employee since 2021.²² East Daviess Water’s adjustments meet the ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

(E) Tap Labor and Materials. In its application, East Daviess Water stated that \$48,386 in tapping fees were collected in the test year 2021.²³ During East Daviess Water’s test year, the minimum meter tap fee rate was increased from \$850 to \$1,000. East Daviess Water adjusted its test year tapping fees to \$53,786 to reflect the increased minimum meter tap fee rate. East Daviess Water proposed a decrease of \$16,136 to Salaries and Wages – Employees expense or 30 percent of the adjusted tapping fees and a decrease of \$37,650 to Materials and Supplies expense or 70 percent of the adjusted tapping fees. East Daviess Water’s adjustments meet the ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

²¹ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment C and L.

²² Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment C.

²³ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment B.

(F) Employee Benefits. In its application, East Daviess Water proposed two adjustments to Employee Pensions and Benefits expense. East Daviess Water's first proposed adjustment is a \$33,569 decrease to Employee Pensions and Benefits expense to reflect the allowable health insurance premium based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums.²⁴ East Daviess Water's second proposed adjustment is a \$28,230 increase to Employee Pensions and Benefits expense to reflect an increase in pension benefits due to an increase in salaries and an increase in pension contribution rate from 3 percent to 10 percent.²⁵

After reviewing East Daviess Water's 2021 general ledger, Commission Staff noted that East Daviess Water had a medical expense of \$106,542.²⁶ East Daviess Water provided a pro forma total health insurance premium amount of \$101,455 in response to Staff's First Request.²⁷ Commission Staff also noted that on June 15, 2022, at the East Daviess Water's monthly board meeting, the board approved employee raises, retirement, and vacation.²⁸ Commission Staff reviewed East Daviess Water's general ledgers and trial balances for 2022 and 2023 year to date and found that East Daviess

²⁴ Application, Attachment 4, Statement of Adjusted Operations, References Adjustment D.

²⁵ Application, Attachment 4, Statement of Adjusted Operations, References Adjustment E.

²⁶ East Daviess Water's Response to Commission Staffs First Request, Item 1a, 1._(a)_2021_Ledger_Analysis.xls.

²⁷ East Daviess Water's Response to Commission Staffs First Request, Item 8, 8._Rate_Analysis_2023.xls.

²⁸ East Daviess Water's Response to Commission Staffs First Request, Item 5, 5._2022_Board_Meeting_Minutes.pdf at 12.

Water's Pension Contribution rate had not increased from 3 percent since June of 2022.²⁹

Commission Staff calculated a pro forma pension expense of \$11,984 using the table below.

Pro Forma Wages Applicable to Retirement	\$ 399,456
Times: Percent Pension Contribution	<u>3.00%</u>
Total Pro Forma Pension Contribution	11,984
Less: Test Year Pension Contribution	<u>(11,716)</u>
Pension & Benefits Adjustment	<u><u>\$ 268</u></u>

Given the information above, Commission Staff calculated two adjustments to Employee Pensions and Benefits expense. Commission Staff's first adjustment is a decrease of \$30,930 to Employee Pensions and Benefits expense to reflect the allowable health insurance premium based on the pro forma total health insurance premium of \$101,455. Commission Staff's second adjustment based on the table below is a decrease of \$4,820 to reflect the \$5,088 difference between the 2021 medical expense of \$106,543 and the pro forma total health insurance premium amount of \$101,455 plus the \$286 pension adjustment calculated in the table above.

	Test Year	Commission Staff Adj.	BLS Adjustment	Pro Forma
Medical Expense	\$ 106,542	\$ (5,088)	\$ (30,930)	\$ 70,524
Pension Expense	11,716	268		11,984
Other	32,890			32,890
Total	<u>\$ 151,148</u>	<u>\$ (4,820)</u>	<u>\$ (30,930)</u>	<u>\$ 115,398</u>

The adjustments, as revised by Commission Staff are included in pro forma operating expenses.

²⁹ East Daviess Water's Response to Commission Staffs First Request, Item 1a and Item 1b, 1. [_\(a\)_2022_Ledger_Analysis.xls](#), 1. [_\(a\)_2023_Ledger_Analysis.xls](#), and 1. [\(b\)_2020-2023_Trial_Balance_Report.xls](#).

(G) Purchased Water. In its application, East Daviess Water proposed an increase of \$150,653 to Purchased Water expense to reflect Owensboro Municipal Utilities' increase to their wholesale water rate from \$1.94 per 1,000 gallons to \$2.16 per 1,000 gallons.³⁰ Owensboro Municipal Utilities is East Daviess Water's sole supplier. Since the filing of its application for this case, Owensboro Municipal Utilities increased its wholesale water rate from \$2.16 per 1,000 gallons to \$3.15 per 1,000 gallons.³¹ Commission Staff calculated an increase of \$338,440 to Purchased Water expense to reflect the increase in wholesale water rate from Owensboro Municipal Utilities using the table below. The adjustment as revised by Commission Staff are included in pro forma operating expenses.

	Owensboro Municipal Utilities
Test Year Gallons (000's)	313,860
Current Purchase Rate	\$ 3.150
Pro Forma Cost	988,659
Test Year Purchase Cost ()	(650,219)
Increase	\$ 338,440

(H) Water Loss. In its application, East Daviess Water proposed a decrease of \$4,392 to Purchased Water expense to account for the East Daviess Water's water loss in excess of 15 percent. In addition, East Daviess Water proposed a \$296 decrease to

³⁰ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment G.

³¹ See Case No. 2023-00138, *Electronic Purchased Water Adjustment Filing of East Daviess County Water Association, Inc. pursuant to KRS 278.012 and 807 KAR 5:068* (Ky. PSC May 1, 2023), OMU Notice of Increase.

Purchased Power expense.³² Commission Staff agrees with East Daviess Water’s proposed adjustment to Purchased Power expense. Commission Staff calculated a decrease of \$6,678 to Purchased Water expense to reflect Owensboro Municipal Utilities’ increase to their wholesale water rate and East Daviess Water’s water loss in excess of 15 percent using the table below. Commission Staff’s adjustment to Purchased Water expense and East Daviess Water’s adjustment to Purchased Power expense meet the ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

Excess Water Loss	Water	
Pro Forma Purchases	\$	988,659
Water Loss in Excess of 15%		0.6755%
Disallowed Water Loss	\$	<u>6,678</u>

(l) Software System. East Daviess Water proposed an increase of \$52,342 to Materials and Supplies expense to reflect the upgrading of their software system from United Systems & Software.³³ East Daviess Water stated in their response to Staff’s Second Request that United Systems & Software notified them that they will not be supporting the software East Daviess Water currently uses after 2023 and that the new software system is more efficient, user friendly and easier to train new employees.³⁴ After a review of East Daviess Water’s 2021 general ledger to find the service charges paid to

³² Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment F.

³³ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment H.

³⁴ East Daviess Water Response to Staff’s Second Request, Item 1b.

United System & Software, Commission Staff calculated an increase of \$51,667 to Materials and Supplies using the table below.³⁵

UNITED SYSTEMS & SOFTWARE, INC.			
Utility Process Management			
	2021 Service Charges	Pro Forma Service Charges	Adj. to Materials & Supplies
East Daviess Water	\$ 44,353	\$ 96,695	\$ 52,342
Commission Staff	45,028	96,695	51,667
Difference	\$ 675	\$ -	\$ 675

East Daviess Water proposed a decrease of \$3,949 to Materials and Supplies expense to reflect the elimination of their current phone service due to the software system upgrade. In addition, East Daviess Water also proposed a decrease of \$350 to reflect the elimination of website expenses due to the software system upgrade.³⁶ Commission Staff's adjustment of \$51,667 and East Daviess Water's adjustments of \$3,949 and \$350 meet the ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

(J) Contractual Services. East Daviess Water proposed an increase of \$58,002 to Contractual Services – Other expense to reflect the 100 percent increase in service fees from Brown Service Company.³⁷ East Daviess Water provided a notice from Brown Service Company stating the increase in service charges.³⁸ In response to Staff's Second Request, East Daviess Water stated that some spending was deferred from 2020

³⁵ East Daviess Water's Response to Commission Staffs First Request (filed Mar. 4, 2023), Item 1a, 1.(a)_2021_Ledger_Analysis.xls.

³⁶ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment H.

³⁷ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment I.

³⁸ East Daviess Water Response to Staff's Second Request, Item 1c, 1.(c)_BSC_Notice_of_increase.pdf.

to 2021.³⁹ Commission Staff determined that, due to the significant year to year variation in spending, 2021 spending should be normalized based on a three-year average for 2020, 2021, and 2022 for amounts paid to Brown Service Company as shown below.⁴⁰

Paid to Brown Service Company	
Year	Amount
2020	\$ 34,515
2021	58,002
2022	29,709
Average	<u>\$ 40,742</u>

Based on the spending normalization calculation Commission Staff made two adjustments to Contractual Services – Other expense as shown in the table below. First, test year expenses were reduced by \$17,260 (adjustment 1 below) to normalize amounts paid to Brown Service Company to the three-year average of \$40,742. Second, the proposed Pro Forma adjustment of \$58,002 to reflect the 100 percent increase in service fees from Brown Service Company was also reduced by \$17,260 (adjustment 2 below) to reflect the effect on the normalized spending adjustment. Commission Staff’s adjustment are included in pro forma operating expenses.

Description	Brown Service Company	Other Contract Labor	Pro Forma
Test Year	\$ 58,002	\$ 42,508	\$ 100,510
East Daviess Proposed Adjustment	58,002	0	58,002
East Daviess Calculation	116,004	42,508	158,512
Commission Staff Adjustment - Normalize Test Year Spending (1)	(17,260)		(17,260)
Commission Staff Adjustment - Adjust for Contract Cost Change (2)	(17,260)		(17,260)
Pro Forma	<u>\$ 81,484</u>	<u>\$ 42,508</u>	<u>\$ 123,992</u>

³⁹ East Daviess Water Response to Staff’s Second Request, Item 3.

⁴⁰ East Daviess Water’s Response to Commission Staffs First Request, Item 1a,1._(a)_2021_Ledger_Analysis.xls,1._(a)_2022_Ledger_Analysis.xls,and 1._(a)_2023_Ledger_Analysis.xls.

(K) Insurance. East Daviess Water proposed an increase of \$374 to Insurance – General Liability & Workers Compensation expense to reflect an insurance provider increase in commercial package premium.⁴¹ East Daviess Water’s adjustments meets the ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

(L) Amortization. East Daviess Water proposed an increase of \$4,555 to Amortization expense to reflect the \$13,664 in initial fees for the setup of their new software system amortized over three years using the table below. East Daviess Water’s adjustments meet the ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

	<u>Cost</u>
Initial setup fee	\$ 1,500
Setup and Technical Services	9,650
Utility Data Conversion with History	7,384
Less: Original software purchase Credit ()	(4,870)
Total Initial Fees	<u>\$ 13,664</u>
Amortize Over 3 Years	<u>\$ 4,555</u>

(M) Depreciation. In its application, East Daviess Water reported test year Depreciation expense of \$239,075. East Daviess Water proposed an increase to its test year depreciation of \$75,015 to reflect adjustments of asset service lives to the midpoint of service life range set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled, Depreciation Practices for Small Water Utilities (NARUC Study).⁴² To evaluate the reasonableness of the depreciation practices

⁴¹ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment J.

⁴² Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment K.

of small water utilities, the Commission has historically relied upon the NARUC Study. 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. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff agrees with East Daviess Water's proposed adjustment and increased pro forma Depreciation Expense \$75,015 accordingly.

(N) Interest Income. East Daviess Water did not propose an adjustment to interest income in the test year 2021. Commission Staff noted interest income of \$6,533 during its review of East Daviess Water's 2021 Annual Report.⁴³ Commission Staff increased Interest Income by \$6,533 for the omission. Commission Staff's adjustment meets the ratemaking criteria of being known and measurable, and Commission Staff included the adjustment in pro forma Interest Income.

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Operating Ratio methodology is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Commission Staff finds the Operating Ratio method is appropriate for East Daviess District. Commission Staff is of the opinion that an operating ratio of 88 percent will allow East Daviess District sufficient revenues to cover its operating expenses and provide for reasonable equity growth.

⁴³ 2021 Annual Report at 20.

By applying the operating ratio method, Commission Staff determined East Daviess Water's Overall Revenue Requirement to be \$2,547,915. Commission Staff calculated a revenue increase of \$192,836, or 8.38 percent, is necessary to generate the Overall Revenue Requirement. Commission Staff's calculation of the Overall Revenue Requirement and the Required Revenue Increase using the Operating Ratio method is shown below.

	East Daviess Water	Commission Staff
Pro Forma Operating Expenses	\$ 2,110,086	\$ 2,229,982
Operating Ratio	88%	88%
Sub-total	<u>2,397,825</u>	<u>2,534,070</u>
Plus: Interest Expense	<u>13,845</u>	<u>13,845</u> (1)
Total Revenue Requirement	2,411,670	2,547,915
Less: Other Operating Revenue	(84,933)	(56,445)
Interest Income	<u>0</u>	<u>(6,533)</u>
Revenue Required From Sales of Water	2,326,737	2,484,937
Less: Revenue from Sales with Present Rates	(2,106,857)	(2,274,268)
Sales for Resale	<u>(22,449)</u>	<u>(26,513)</u>
Required Revenue Increase	<u>\$ 197,432</u>	<u>\$ 184,156</u>
Percent Increase	<u>9.27%</u>	<u>8.00%</u>

1. Average Annual Interest and Fees Payments. In its application, East Daviess Water reported a five-year average annual interest expense of \$13,845 on its one bond.⁴⁴ Therefore, Commission Staff included the five-year average annual interest expense of \$13,845 in its revenue requirement calculation since the Operating Ratio does not include interest expense.

⁴⁴ Application, Attachment 4, Table B Debt Service Schedule.

Signatures

/s/ Noah Abner

Prepared by: Noah Abner
Revenue Requirement Branch
Division of Financial Analysis

/s/ Eddie Beaver by WC

Prepared by: Eddie Beavers
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00025 DATED JUN 27 2023

The following rates and charges are prescribed for the customers in the area served by East Daviess County Water Association, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$22.62	Minimum Bill
Next	4,000 Gallons	0.00842	Per Gallon
Next	44,000 Gallons	0.00725	Per Gallon
Over	50,000 Gallons	0.00639	Per Gallon

3/4-Inch Meter

First	3,000 Gallons	\$31.04	Minimum Bill
Next	3,000 Gallons	0.00842	Per Gallon
Next	44,000 Gallons	0.00725	Per Gallon
Over	50,000 Gallons	0.00639	Per Gallon

1-Inch Meter

First	6,000 Gallons	\$56.31	Minimum Bill
Next	44,000 Gallons	0.00725	Per Gallon
Over	50,000 Gallons	0.00639	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$85.30	Minimum Bill
Next	40,000 Gallons	0.00725	Per Gallon
Over	50,000 Gallons	0.00639	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$157.77	Minimum Bill
Next	30,000 Gallons	0.00725	Per Gallon
Over	50,000 Gallons	0.00639	Per Gallon

Leak Adjustment Rate \$0.00520 Per Gallon

Wholesale Rate \$0.00440 Per Gallon

Nonrecurring Charges

Connection Charge	\$24.00
Connection Charge After Hours	\$118.00
Cut Lock Charge	\$37.50
Meter Reread	\$24.00
Meter Test Charge	\$24.00
Reconnection Charge	\$46.00
Reconnection Charge After Hours	\$139.00
Returned Check Charge	\$12.50
Service Call/Investigation Charge	\$24.000
Service Call/Investigation Charge After Hours	\$118.00
5/8 x 3/4 Tap Fee	\$1,350.00
5/8 x 3/4 Tap Fee Tandem Service	\$1,535.00

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