

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DAVIESS	)	CASE NO.
COUNTY WATER DISTRICT FOR AN	)	2022-00142
ADJUSTMENT OF RATES	)	

ORDER

Daviess County Water District (Daviess District) filed an application for a general rate adjustment on June 30, 2022. The application requested a rate increase of \$528,825 or 8.77 percent in retail base rates pursuant to KRS 278.180 and KRS 278.190. There are no intervenors to this proceeding. Pursuant to KRS 278.190(2), the Commission suspended the proposed rates for five months from their effective date, up to and including December 30, 2022, to permit sufficient time to investigate the reasonableness of the proposed rates.<sup>1</sup> Daviess District responded to four rounds of discovery. On October 25, 2022, Daviess District filed a motion to close this proceeding and submit the case on the record. By Order dated November 1, 2022, the Commission denied the motion to close the proceeding, and held the motion to submit the case on the record in abeyance, pending Commission Staff's Fourth Request for Information (Staff's Fourth Request). Daviess District filed its responses to Staff's Fourth Request on November 15, 2022. The matter now stands submitted for decision.

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<sup>1</sup> Order (Ky. PSC July 15, 2022), ordering paragraph 1.

## BACKGROUND

Daviess District, a water district organized under KRS Chapter 74, provides retail water service to approximately 13,312 retail customers in Daviess County, Kentucky.<sup>2</sup> Daviess District also provides wholesale water service to Beech Grove Water System, Inc., East Daviess County Water Association, North McLean County Water District, Owensboro Municipal Utilities, and city of Whitesville.<sup>3</sup>

Daviess District is the result of a merger of Southeast Daviess County Water District and West Daviess County Water District on January 1, 2021, as approved by the Commission in Case No. 2020-00287.<sup>4</sup> In its Order approving the proposed merger, the Commission directed that “the rates decided upon for each applicant in Case No. 2020-00195<sup>5</sup> and Case No. 2020-00196,<sup>6</sup> should be used for approximately one year, until the consolidated utility formed should file an application with the Commission to adjust its rates to a uniform schedule.”<sup>7</sup> Daviess District submitted this proposed rate increase to comply with the Commission’s Order of December 15, 2020, in Case No. 2020-00287 “to

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<sup>2</sup> *Annual Report of Daviess District to the Public Service Commission for the Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

<sup>3</sup> Application at 3.

<sup>4</sup> Application at 3.

<sup>5</sup> Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec 30, 2020).

<sup>6</sup> Case No. 2020-00195, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment*, (Ky. PSC Dec. 30, 2020).

<sup>7</sup> Case No. 2020-00287, *Electronic Joint Application of Southeast Daviess County Water District and West Daviess County Water District for an Order Approving Their Merger Agreement*, (Ky. PSC Dec. 15, 2020) at 6.

adjust its rates to a uniform schedule,” and to establish one rate schedule for Daviess District’s entire territory.<sup>8</sup>

### LEGAL STANDARD

Daviess District filed its application for an adjustment of rates pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001E. The Commission’s standard of review for a utility’s request for a rate increase is whether the proposed rates are “fair, just and reasonable.”<sup>9</sup> Daviess District bears the burden of proof to show that the proposed rate is just and reasonable under the requirements of KRS 278.190(3).

### ANALYSIS AND DETERMINATION

#### Test Period

Daviess District proposed, and the Commission accepts, a historical 12-month period ended December 31, 2021, as the test period to determine the reasonableness of its proposed rates. Daviess District proposed pro forma adjustments, which are discussed below.

#### Operating Income Adjustments

Billing Adjustments. Daviess District provided a billing analysis showing the gallons of water billed to retail and wholesale customers during the test year, and proposed an adjustment in test period revenues increasing test-year retail metered sales by \$233,619, fire protection sales by \$284, and sales for resale by \$27,791.<sup>10</sup> Applying the water service rates that were in effect during the test year to the water sales shown

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<sup>8</sup> Application at 4.

<sup>9</sup> KRS 278.030; *Pub. Serv. Comm’n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

<sup>10</sup> Application, Exhibit 8, References, Item A.

in the billing analysis, the Commission finds that Daviess District's adjustments are appropriate, and test year revenues from retail customers was increased by \$897, and decreased by \$2 from sales for resale, for a total adjustment of \$895.

Late Fee Normalization. During the test year, Daviess District recorded \$0.00 in late payment charges, or forfeited discounts. In the final Order for Case No. 2020-00195, the Commission ordered the removal of the late payment penalty charge from Southeast Daviess District's tariff.<sup>11</sup> The Commission stated that "the collection of late fees is not recovering an actual cost that the utility incurs, it is purely a punitive exercise that disproportionately affects those customers already unable to pay for service rendered, and the uncontroverted evidence indicates that it has little-to-no effect on a customer's timeliness of payment." In its application, Daviess District refers to KRS 278.0154(1) as justification for reinstating its late payment penalty. KRS 278.0154(1) states that "any water district or water association formed for the purpose of furnishing water or sewer services to the general public for compensation pursuant to KRS Chapter 74 or 273 may assess a customer who fails to pay a bill for rendered services by the due date shown on the bill a late payment charge of ten percent (10%) of the amount billed." Given this recent addition of KRS 278.0154, the Commission finds that the reinstatement of Daviess District's late payment penalty of 10 percent is appropriate, and that revenue from Forfeited Discounts should be normalized using a three-year average of the reported income from late fees in the years 2017, 2018, and 2019.<sup>12</sup> Based upon a three-year

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<sup>11</sup> See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 20, 2020), final Order at 13 and 14.

<sup>12</sup> Daviess District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Aug. 30, 2022), Item 3.

average of \$49,661, the Commission finds that Miscellaneous Service Revenues should be increased by \$49,661.

YEAR	Amount
2019	\$53,485
2018	49,197
2017	46,301
Three-year Average	\$49,661
Less: Test Year Late Fees	-
Pro Forma Adjustment	\$49,661

Nonrecurring Charges. In the final Order for Case No. 2020-00195, the Commission reviewed Southeast Daviess District’s Nonrecurring Charges and removed the estimated labor costs from each charge.<sup>13</sup> In the current proceeding, Daviess District provided updated cost justification forms for its Nonrecurring Charges as there have been minor increases in the estimated costs for each charge since the Commission’s decision in Case No. 2020-00195.<sup>14</sup> The Commission has reviewed the cost justification forms provided by Daviess District and has adjusted these charges to reflect these increases. Such adjustments result in the following Nonrecurring Charges:

	<u>Current Charge</u>	<u>Revised Charge</u>
Disconnection Charge	\$11.50	\$12.00
Meter Test Fee	\$10.00	\$12.00
Reconnection Charge	\$11.50	\$12.00
Reconnection Charge (After Hours)	\$77.00	\$120.00
Service Order	\$11.50	\$12.00
Service Order (After Hours)	\$77.00	\$120.00

<sup>13</sup> See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), at 4 and 5.

<sup>14</sup> Daviess District’s Response to Commission Staff’s Third Request of Information (Staff’s Third Request) (filed Sept. 26, 2022), Item 4.

The adjustments to the Nonrecurring Charges results in an increase to the charges and a decrease in miscellaneous service revenues of \$1,470 as shown below.

The Commission finds that the adjustment is reasonable and should be accepted.

	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Disconnection Charge	761	\$11.50	\$12.00	\$381	\$9,132
Meter Test Fee	1	\$10.00	\$12.00	\$2	\$12
Reconnection Charge	585	\$11.50	\$12.00	\$293	\$7,020
Reconnection Charge (After Hours)	3	\$77.00	\$120.00	\$129	\$360
Service Order	1,331	\$11.50	\$12.00	\$666	\$15,972
Service Order (After Hours)	0	\$77.00	\$120.00	\$0	\$0
Total				\$1,470	
Pro Forma Test Year NRC Revenue					\$32,496
Less: Test Year NRC Revenue					\$31,027
Adjustment					\$1,470

AT&T Revenue. In its application, Daviess District proposed an increase to Other Water Revenues of \$467 to reflect a 3 percent increase from AT&T for co-location of its facilities at the West Louisville tank.<sup>15</sup> The original agreement, executed in 2020, specified an annual payment of \$15,120.<sup>16</sup> During 2021, Daviess District reported it collected \$15,574,<sup>17</sup> and during 2022 it collected \$16,041,<sup>18</sup> which is an annual increase of 3 percent.<sup>19</sup> The Commission agrees that such an adjustment represents known and

<sup>15</sup> Application, Exhibit 8, References, Item C.

<sup>16</sup> Application, Exhibit 10, Alan H. Vilines Testimony, at 8.

<sup>17</sup> Daviess District's Response to Staff's Second Request, Item 1a, Question\_001a\_General\_Ledger\_2021.xls.

<sup>18</sup> Daviess District's Response to Staff's Second Request, Item 1a, Question\_001a\_General\_Ledger\_2021.xls.

<sup>19</sup> 2021 increase  $(15,574 - 15,120) / 15,120 = 3.00$ . 2022 increase  $(16,041 - 15,574) / 15,574 = 3.00\%$ .

measurable changes to expenses that have taken place during the test year and finds that it should be included in pro forma expenses.<sup>20</sup>

Revenues Reclassify Sewer Collection Fees. During the test year, Daviess District reported \$142,327 for Other Water Revenues.<sup>21</sup> Included in the \$142,327 is \$99,673 reported for Sewer Collection Fees. Daviess District reported the Sewer Collection fees are for billing, collecting, reporting, and reimbursing sewer and sanitation fees and charges.<sup>22</sup> Daviess District does not provide wastewater Services,<sup>23</sup> nor does it incur any expenses related to wastewater services.<sup>24</sup> Since the revenue is generated from activities that do not involve the sale of Water Services, the Commission determined the revenues are nonutility income and is reported below the line on the utility's income statement. Therefore, the Commission reduced Other Water Revenues and increased non-utility revenues by \$99,673.

Salaries and Wages – Employees. In its application, Daviess District proposed an adjustment to increase Salaries and Wages – Employees expense by \$90,671.<sup>25</sup> Citing

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<sup>20</sup> See 807 KAR 5:001E, Section 16.1.(a); Case No. 2001-00211, *The 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); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

<sup>21</sup> Application, Exhibit 8, Schedule of Adjusted Operations.

<sup>22</sup> Daviess District's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request) (filed Nov. 16, 2022), Item 1.

<sup>23</sup> Daviess District's Response to Staff's Fourth Request, Item 2.

<sup>24</sup> Daviess District's Response to Staff's Fourth Request, Item 3.

<sup>25</sup> Application, Exhibit 8, References, Item D.

an increase in wages and new employees filling vacant positions. Daviess District calculated the adjustment by first calculating the test year wages and then increased all salaries and Wages by 6 percent to correspond to a mid-year across the board increase resulting in a Pro Forma Salaries and Wages – Employees expense of \$839,855.<sup>26</sup> Daviess District stated in its proposed adjustment that wages have increased for most employees, however their proposed adjustment uniformly increases all employees’ Salaries by 6 percent. Daviess District provided a complete list of test year<sup>27</sup> and current<sup>28</sup> employees, hours worked, and Wage rates. The Commission calculated the Normalized Salaries and Wages – Expense for Daviess District, by utilizing current wage rates and the test year hours worked for each employee separately, this results in a Salaries and Wages – Employees expense of \$838,269 as shown below. The commission has determined that calculating the pro forma Salaries and Wages – Expense using this method provides a more accurate determination since it determines each employee’s normalized Salaries separately rather than as a whole. Therefore, when compared to the test year Salaries and Wages – Employees expense of \$749,184<sup>29</sup> the Commission finds

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<sup>26</sup> Daviess District’s Response to Commission Staff’s First Request for Information (Staff’s First Request) (filed Aug. 1, 2022), Item 41.

<sup>27</sup> Daviess District’s Response to Staff’s First Request, Item 41.

<sup>28</sup> Daviess District’s Response to Staff’s Second Request, Items 6a and 6b.

<sup>29</sup>

Account #	Account	Amount
00601-0005	Salaries and Wages- Maint	\$403,408
00601-0007	Salaries and Wages- Office	241,075
00601-0008	Salaries and Wages- Admin	110,951
00601-0009	Salareis and Wages- Contra Account	(6,250)
		<u>\$749,184</u>

that an adjustment to increase Salaries and Wages – Employees by \$89,085 to be more appropriate.

Test Year Hours with Current Wages											
Job Title	Pro Forma Regular Hours	Pro Forma Overtime Hours	Pro Forma Double Time Hours	Pro Forma Regular Rates	Pro Forma Overtime Rates	Pro Forma Double Time Rates	Pro Forma Regular Wages	Pro Forma Overtime Wages	Pro Forma Double Time Wages	Additional Pay	Total Pro Forma Wages
General Manager	Salary	-	-	Salary			\$ 103,100	-	-	-	\$ 103,100
Office Manager	Salary	-	-	Salary			91,646	-	-	-	91,646
Office Clerk	2,080	2.00	-	20.29	\$ 30.44	40.58	42,203	\$ 60.87	-	\$ 300.00	42,564
Office Clerk	2,080	1.00	-	19.54	29.31	39.08	40,643	29.31	-	300.00	40,973
Office Clerk	2,080	2.00	-	22.29	33.44	44.58	46,363	66.87	-	137.70	46,568
Office Clerk	2,080	-	-	20.29	30.44	40.58	42,203	-	-	175.00	42,378
Meter Reader	2,080	22.75	-	30.39	45.59	60.78	63,211	1,037.06	-	-	64,248
Maintenance	2,080	41.00	12.50	26.98	40.47	53.96	56,118	1,659.27	\$ 674.50	-	58,452
Maintenance	2,080	108.50	18.50	24.93	37.40	49.86	51,854	4,057.36	922	-	56,834
Maintenance	2,080	128.50	46.00	31.22	46.83	62.44	64,938	6,017.66	2,872	3,120.00	76,947
Maintenance	2,080	22.50	5.00	26.13	39.20	52.26	54,350	881.89	261	-	55,494
Maintenance	2,080	5.00	5.00	28.33	42.50	56.66	58,926	212.48	283	4,255.00	63,677
Maintenance	2,080	47.50	5.50	23.54	35.31	47.08	48,963	1,677.23	259	-	50,899
Maintenance	2,080	23.00	-	21.04	31.56	42.08	43,763	725.88	-	-	44,489
Total Pro Forma Salaries and Wages											\$ 838,269
Less: Test Year Salaries and Wages											(749,184)
Pro Forma Salaries and Wages Adjustment											<u>\$ 89,085</u>

Employee Pensions and Benefits. In its application, Daviess District proposed two adjustments to test-year employee pension and benefits expense. First, Daviess District proposed an adjustment to increase employee pension and benefits expense by \$12,419 to reflect the increase recorded to Salaries and Wages – Employees, discussed above.<sup>30</sup>

However, as discussed above, the Commission calculated a different adjustment to Salaries and Wages – Employees. The Commission calculated an employee pension contribution expense of by multiplying the Pro Forma Salaries and Wages amount of \$838,269 by the Employer contribution Rate for Fiscal year 2022 of 13.67 percent and determined a Pro Forma Contribution amount of \$114,591.<sup>31</sup> Daviess District’s test year

<sup>30</sup> Application, Exhibit 8, References, Item D.

<sup>31</sup>

Pro Forma Salaries and Wages- Employees	\$ 838,269
Multiplied by: Employer Contribution Rate Fiscal Year 2022	<u>13.67%</u>
Pro Forma Pension Contribution	<u>114,591</u>

employee pension contribution was \$102,389.<sup>32</sup> Therefore, the Commission finds that a more appropriate increase to the County Employees Retirement System (CERS) contribution expense is \$12,202.<sup>33</sup>

Second, Daviess District pays about 98 percent of its employee’s health insurance premiums for single, family, and dependent plans and a significant percentage of Dental Premiums.<sup>34</sup> Daviess District’s proposed adjustment to Employee Pensions and Benefits is an adjustment to reduce pro forma expenses consistent with the Commission’s practice of adjusting district’s employee health insurance premiums to the Bureau of Labor Statistics national average for single and family plans resulting in a decrease of \$69,474.<sup>35</sup> Daviess District provided the Commission with its most recent health and dental insurance invoice.<sup>36</sup> According to commission precedent,<sup>37</sup> the Commission reduced benefit expenses for utilities that pay 100 percent of an employee’s health insurance coverage to agree with the Bureau of Labor Statistics’ 2020 healthcare benefits

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<u>Account #</u>	<u>Account</u>	<u>Amount</u>
00607-0005	Pension- Maintenance	\$ 52,151
00607-0007	Pension- Office	34,446
00606-0008	Pension- Administrative	<u>15,792</u>
Test year Employee Pensions expense		<u><u>\$ 102,389</u></u>

<sup>32</sup> Pro Forma Test Year Pension Contribution \$114,591 – Test Year Pension Contribution \$102,389 = \$12,202.

<sup>34</sup> Application, Exhibit 8, References, Item E.

<sup>35</sup> Application, Exhibit 8, References, Item E.

<sup>36</sup> Daviess District’s Response to Staff’s Second Request, Item 9.

<sup>37</sup> Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates*, (Ky. PSC June 20, 2019) at 8–12.

percentages;<sup>38</sup> reducing single insurance premiums by 22 percent and group or family policies by 34 percent. The Commission also reduced benefits expense for employer provided dental benefits by 60 percent.<sup>39</sup> The Commission calculated a pro forma employer contribution amount of \$188,230; accordingly, the Commission finds that reducing the health insurance premiums for each type of coverage offered results in a decrease to test year insurance premium expenses of \$77,611.<sup>40</sup>

Purchased Water Expense. In its application, Daviess District proposed an adjustment to increase Purchased Water expense by \$180,548, to account for a mid-year increase in the price Daviess District is charged for purchased water during the test year.<sup>41</sup> Daviess District provided the number of gallons of water purchased during the test year,<sup>42</sup> and the current price charges per gallon.<sup>43</sup> The Commission calculated the

<sup>38</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>39</sup> Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates* (Ky. PSC June 6, 2019) at 12.

<sup>40</sup>

Type of Premium	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Health (Single)	\$3,479	22%	\$(765)	\$2,714
Health (Two Person)	4,383	34%	(1,490)	2,893
Health (Family)	14,124	34%	(6,293)	9,322
Dental Insurance	643	60%	(386)	257
Total Pro Forma Monthly Premium				15,186
Multiply by: 12 Months				12
Total Annual Pro Forma Premium				188,230
Less: Test Year Premium Expense				(259,841)
Pro Forma Insurance Premium Adjustment				<u>(77,611)</u>

<sup>41</sup> Application, Exhibit 8, References, Item F.

<sup>42</sup> Daviess District's Response to Staff's Second Request, Item 10.

<sup>43</sup> Daviess District's Response to Staff's Second Request, Item 11.

normalized Purchased Water expense, as shown below, and agrees that the adjustment proposed by Daviess District represent appropriate treatment of pro forma Purchased Water expenses.

Period	Purchased Water Expense						Total
	Owensboro Municipal- SE		East Daviess		Owensboro Municipal- West		
	Gallons Purchased	Cost per Gallon	Gallons Purchased	Cost per Gallon	Gallons Purchased	Cost per Gallon	
Jan. 2021	51,489,100	\$.00277	354,882	\$.00348	30,461,800	\$.00316	\$240,119
Feb. 2021	51,616,900	.00277	315,324	.00348	29,640,500	.00316	237,740
Mar. 2021	58,455,900	00277	303,126	00348	32,889,900	00316	266,910
Apr. 2021	54,266,100	00277	342,684	00348	32,123,800	00316	253,021
May. 2021	64,738,600	00277	386,688	00348	36,934,100	00316	297,383
Jun. 2021	69,548,500	00277	693,576	00348	40,039,400	00316	321,587
Jul. 2021	71,802,000	00277	847,362	00348	40,368,300	00316	329,404
Aug. 2021	78,796,300	00277	1,046,634	00348	42,358,300	00316	355,760
Sep. 2021	61,937,200	00277	795,606	00348	33,557,400	00316	280,376
Oct. 2021	55,743,200	00277	643,074	00348	30,102,900	00316	251,772
Nov. 2021	54,152,800	00277	401,075	00348	31,142,600	00316	249,810
Dec. 2021	53,205,800	00277	320,910	00348	30,924,000	00316	246,217
Total Purchased Water Expense							3,330,099
Less: Test Year Purchased Water							(3,149,551)
Pro Forma Purchased Water Adjustment							<u>\$180,548</u>

Materials and Supplies. In its application, Daviess District proposed an adjustment to increase pro forma Materials and Supplies expense to reflect the increase from the District’s AMI and tank maintenance contractors of 3 percent and 3.67 percent annually, respectively.<sup>44</sup> The AMI vendor is CITCO Water, and the maintenance contractor is Utility Service Company, Inc.<sup>45</sup> Daviess District provided copies of the invoices for the contactors detailing the annual costs.<sup>46</sup> The Commission agrees that such an adjustment represents known and measurable changes to expenses that have taken place during the test year and finds that it should be included in pro forma expenses

<sup>44</sup> Application, Exhibit 8, References, Item G.

<sup>45</sup> Daviess District’s Response to Staff’s Second Request, Item 13a.

<sup>46</sup> Daviess District’s Response to Staff’s Second Request, Item 13b.

Rate Case Expense. On November 16, 2022, Daviess District filed with the Commission its final rate case expense report showing the total cost of rate case assistance to be \$59,824.<sup>47</sup>

It is Commission precedent to amortize the cost of rate case assistance over three years in the absence of a different period requested by a utility.<sup>48</sup> Setting the amortization along the lines with the expected time between rate cases ensures regulatory assets are not over –or under- amortized. The Commission recommends utilities be subject to a rate and operations review every three years to ensure that revenue is adequate to properly operate the system over the long term.<sup>49</sup> Therefore, the Commission finds that an increase in pro forma contractual Services expense of \$19,941 is necessary to allow for the recovery of the cost of rate case assistance, as shown below.

Rate Case Expense	
Final Rate Case Expense	\$59,824
Divided by: Three Years	3
Pro Forma Rate Case Expense Adjustment	\$19,941

Depreciation Expense. In its application, Daviess District included \$755,001 in Depreciation Expense and proposed to increase test-year Depreciation Expense by \$22,417<sup>50</sup> citing Commission precedent of evaluating the reasonableness of the

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<sup>47</sup> Daviess District’s Fourth Supplemental Response to PSC Staff’s Request 1-10d (filed Nov. 16, 2022).

<sup>48</sup> Case 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), Order at 9 – 10.

<sup>49</sup> Case 2019-00041, *Investigation Into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, at 25.

<sup>50</sup> Application, Exhibit 8, Reference I.

depreciation practices of small water utilities using the National Association of Regulatory Utility Commissioners' (NARUC) report titled *Depreciation Practices for Small Utilities* (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.<sup>51</sup>

The Commission generally agrees that the adjustment proposed by Daviess District represents an appropriate treatment of pro forma expenses. However, upon examination of the most recent Depreciation Schedule,<sup>52</sup> it was determined that Daviess District's proposed test year depreciation expense of \$755,001 was different from the amount reported in the depreciation workpapers of \$776,451.<sup>53</sup> The Commission agrees with Daviess District's proposed useful service lives for its assets. The Commission calculated a Pro Forma Depreciation expense based on the depreciation schedule and adjusting the test lives for assets to the mid-point of the NARUC Study; and calculated a Pro Forma Depreciation Expense of \$771,054. Therefore, since the adjustment proposed by Daviess District was based on the depreciation expense of \$755,001, the Commission finds that increasing the Depreciation expense by \$16,053 is more appropriate.

Categories	Pro Forma Depreciation
304- Pumps and Equipment	\$44,606
330- Reservoirs and Tanks	101,063
331- Line Extensions	184,557
334- Meters	163,270
335- Hydrants	20,597
339- Other Plant and Miscellaneous Equipment	2,424

<sup>51</sup> Case No. 2016-00163 *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), at 8 and 9.

<sup>52</sup> Daviess District's Response to Staff's First Request, Item 22.

<sup>53</sup> Daviess District's Response to Staff's First Request, Item 22.

340- Office Furniture and Equipment	4,488
341- Vehicles	21,860
343- Tools, Shop, and Garage Equipment	2,220
345- Power Operated Equipment	5,474
346- Communications Equipment	<u>220,498</u>
Total Pro Forma Depreciation Expense	771,054
Less: Test Year Depreciation Expense	<u>(755,001)</u>
Pro Forma Depreciation Adjustment	<u>\$16,053</u>

Taxes other than Income – FICA. In its application, Daviess District proposed an adjustment to increase Taxes other than Income by \$11,778, to account for the increase in local payroll taxes due to the increase proposed to Salaries and Wages – Employees.<sup>54</sup>

The Commission generally agrees that the adjustments proposed by Daviess District represent appropriate treatment of pro forma expenses. However, upon taking into account the Commission adjustments to employee salaries and wages above, the Commission finds that an appropriate adjustment to reflect pro forma FICA taxes is \$13,199 as shown.

<u>Taxes other than Income – FICA</u>	
Pro Forma Salaries and Wages – Employees	\$838,269
Pro Forma Salaries and Wages – Officers	<u>18,000</u>
Total Pro Forma Applicable FICA Wages	856,269
Multiplied by: 7.65 Percent FICA Rate	65,505
Multiplied by: 1 percent Local Payroll Taxes	<u>8,563</u>
Pro Forma Payroll Taxes	74,068
Less: Test Year Payroll Taxes	<u>(60,869)<sup>55</sup></u>
Employee Pensions and Benefits Adjustment	<u>\$13,199</u>

<sup>54</sup> Application, Exhibit 8, Reference J.

<sup>55</sup>

<u>Account #</u>	<u>Account</u>	<u>Amount</u>
00606-0005	FICA Expense- Maint	\$31,756
00606-0007	FICA Expense- Office	18,995
00606-0008	FICA Expense- Admin	<u>10,118</u>
	Total Test Year FICA Expense	<u>\$60,869</u>

Gains (Losses) from Disposition of Utility Property. In its application, Daviess District included \$1,231 in Gains (Losses) from Disposition of Utility Property.<sup>56</sup> Daviess District reported the gain was the result of the net of a loss of \$13,769 from the disposal of undepreciated meters, and a gain of \$15,000 from the sale of four pickup trucks.<sup>57</sup> Since the disposal of meters is a recurring event, the Commission agrees with including the loss.<sup>58</sup> However, the disposal of pickup trucks was an unusual occurrence,<sup>59</sup> therefore the Commission finds that a reduction of \$15,000 is required.

Summary of Adjustments to Operating Expense and Revenue

The following schedule is a summary of Daviess District’s test-year operating revenues and expenses, including appropriate adjustments found reasonable herein. The chart in Appendix B, attached to this Order, is a detailed pro forma Income Statement that shows the effect of the Commission’s adjustments along with the proposed and accepted adjustments of Daviess District:

	<u>2021 Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Commission Pro Forma</u>
Operating Revenues	\$5,941,144	\$213,619	\$6,154,763
Operating Expenses	<u>5,743,613</u>	<u>256,167</u>	<u>5,999,780</u>
Net Operating Income	197,531	(42,548)	154,983
Interest and Dividend Income	<u>43,958</u>	<u>-</u>	<u>43,958</u>
Gains (Losses) From Disposition of Utility Property	1,231	(15,000)	(13,769)
Sewer Collection Fees	<u>-</u>	<u>99,673</u>	<u>99,673</u>

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<sup>56</sup> Application, Exhibit 20, Income Statement for Year Ending December 31, 2021.

<sup>57</sup> Daviess District’s Response to Staff’s Third Request, Item 3.

<sup>58</sup> Daviess District’s Response to Staff’s Fourth Request, Item 5a.

<sup>59</sup> Daviess District’s Response to Staff’s Fourth Request, Item 5b.

Income Available for Debt Service	<u>\$242,720</u>	<u>\$42,125</u>	<u>\$284,845</u>
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Operating Ratio

The Commission has historically authorized use of the Operating Ratio method, rather than the Debt Service method, when it is appropriate for a water district or association to maintain financial stability.<sup>60</sup> This may occur for a variety of reasons including significant levels of contributed capital, lower amounts of outstanding long-term debt, or fully depreciated assets that are continuing to be operational beyond their expected service life. The Commission has determined that an 88 percent operating ratio to calculate the revenue requirement is appropriate for Daviess District based on its lack of outstanding long-term debt to provide appropriate revenues for operations and debt service coverage.

By applying the Operating Ratio method, the Commission found Daviess District's Revenue Requirement from Rates for Service to be \$6,563,196. A revenue increase of \$533,702, or 8.85 percent, is necessary to generate the Overall Revenue Requirement.

	<u>Commission's Revenue Requirement</u>
Pro Forma Operating Expenses	\$5,999,780
Divided by: Operating Ratio	<u>88%</u>
Subtotal	6,817,932
Plus: Interest Expense	<u>395</u>
Total Revenue Requirement	6,818,327
Plus Loss from the Disposition of Utility Property	<u>13,769</u>
Less: Other Operating Revenues	(125,269)
Interest and Dividend Income	(43,958)

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<sup>60</sup> Case No.2022-00221, *Electronic Application of Northeast Woodford County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Jan. 20. 2023).

Sewer Collection Fees	<u>(99,673)</u>
Revenue Required from Sales of Water	6,563,196
Revenues from Sales with Present Rates	<u>(6,029,494)</u>
Required Revenue Increase	<u>\$533,702</u>
Percentage Increase	<u>8.85%</u>

### RATE DESIGN

Daviess District included with its application a cost of service study (COSS) in order to allocate the expenses to customer classes in proportion with the cost of providing service to each class. The rates in the COSS were developed following the commodity demand methodology that is recognized in the Manual M-1 published by the American Water Works Association. Through this method, Daviess District allocated the Overall Revenue Requirement to Daviess District's customer classes in proportion to the cost of providing service to those customer classes. This method recognizes that a utility must meet peak demand requirements as well as the customer's average water use. Daviess District also proposed to increase its current wholesale water service rate and has provided a COSS using the "inch-miles" method to allocate expenses to the wholesale customer. This method has been accepted by the Commission in past proceedings and the Commission finds that is a reasonable method for allocating expenses to the wholesale customer in this case.<sup>61</sup>

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<sup>61</sup> See Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Nov. 20, 2019), Commission Staff Report at 4.

In Case No. 2020-00287, the Commission ordered Daviess District to submit a unified rate schedule in the first rate case that the merged District files.<sup>62</sup> Daviess District currently charges the Commission approved tariff rates established for the Southern Division and the Commission-approved tariff rates established for the West Division. In its application and corresponding COSS, Daviess District submitted a proposal to unify its service rates that are applicable to all customers in its service area.

The Commission accepts Daviess District's proposed COSS as a reasonable basis for allocating costs, but incorporates revisions based upon the adjustments made to the pro-forma expenses explained above. The Commission's calculations and resulting rates are shown in Appendix B. The rates set forth in Appendix A to this report are based upon the revenue requirement as calculated by the Commission and will produce sufficient revenues from water sales to recover the \$6,5633,196 Revenue Requirement from water sales determined by the Commission, an approximate 8.85 percent increase.<sup>63</sup> These rates will increase the monthly bill of a retail customer in Daviess District's Southeast Division using 4,100 gallons from \$25.97 to \$30.68, an increase of \$4.71 or 18.14 percent.<sup>64</sup> The monthly bill of a retail customer in Daviess District's West Division using 4,100 gallons will decrease from \$31.25 to \$30.68, a decrease of \$0.57 or 1.82 percent. The monthly bill for a wholesale customer in Daviess District's Southeast Division will increase from \$3,750 to \$4,170 for each 1,000,000 gallons purchased. The

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<sup>62</sup> Case No. 2020-00287, *Electronic Joint Application of Southeast Daviess County Water District and West Daviess County Water District for an Order Approving Their Merger Agreement* (Ky. PSC Dec. 15, 2020 at 6).

<sup>63</sup> Revenue Requirement less Other Operating Revenue, Interest Income, and Sewer Collection Fees.

<sup>64</sup> The average retail customer uses approximately 4,100 gallons per month.

monthly bill for a wholesale customer in Daviess District's West Division will decrease from \$4,840 to \$4,170 for each 1,000,000 gallons purchased.

### SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the adjustments, as discussed above, are supported by the evidence of record and are fair, just and reasonable. The Commission has historically used an Operating Ratio method to calculate the revenue requirement for water districts or associations without outstanding long-term debt. Applying the Operating Ratio method to Daviess District's pro forma operations results in an Overall Revenue Requirement of \$6,818,327 and a revenue required from Sale of Water of \$6,563,196, based upon pro forma present rate service revenues of \$6,029,494, a revenue increase of \$533,702 from water service rates is necessary to generate the overall revenue requirement.

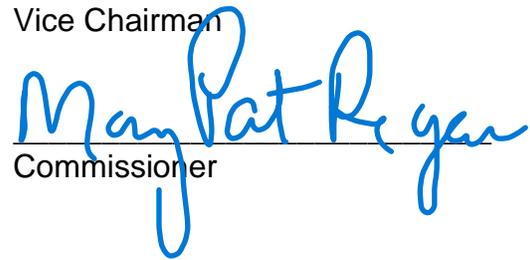
IT IS THEREFORE ORDERED that:

1. The rates proposed by Daviess District are denied.
2. The general service rates and nonrecurring charges set forth in Appendix A are fair, just and reasonable, and are approved for service rendered on and after the date of this Order.
3. Within 20 days of the entry of this Order, Daviess District shall file with the Commission, using the Commission's Electronic Tariff Filing System, new tariff sheets setting forth the rates and charges and the revisions approved herein and reflecting their respective effective dates and that they were authorized by this Order.
4. The case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

  
\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Vice Chairman

  
\_\_\_\_\_  
Commissioner

ENTERED  
FEB 10 2023  
rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
\_\_\_\_\_  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2022-00142 DATED FEB 10 2023

Monthly Water Rates

Customer Charge

5/8-Inch x 3/4-Inch Meter	\$4.52 per month
1-Inch Meter	6.33 per month
1 1/2-Inch Meter	8.14 per month
2-Inch Meter	13.11 per month
3-Inch Meter	49.72 per month
4-Inch Meter	63.28 per month
6-Inch Meter	94.92 per month
8-Inch Meter	131.08 per month

Usage Charge

First 20,000 Gallons	\$0.00638 per gallon
Over 20,000 Gallons	0.00529 per gallon

Wholesale

All Wholesale Customers	\$0.00417 per gallon
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Nonrecurring Charges

Disconnection Charge	\$12.00
Meter Test Fee	\$12.00
Reconnection Charge	\$12.00
Reconnection Charge (After Hours)	\$120.00
Service Order	\$12.00
Service Order (After Hours)	\$120.00
Late Payment Charge	10% of total billed usage

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2022-00142 DATED FEB 10 2023

	<u>Test Year</u>	<u>Adjustment</u>	<u>Pro Forma</u>
Operating Revenues			
Total Metered Water Sales	\$ 5,349,757	\$ 233,619	\$ 5,583,376
Fire Protection	36,868	284	37,152
Sales for Resale	381,175	27,791	408,966
Other Water Revenues	-		
Forfeited Discounts		49,661	49,661
Misc. Service Revenues	31,017	1,470	32,487
Other Water Revenues	142,327	467	
		<u>(99,673)</u>	<u>43,121</u>
Total Operating Revenues	5,941,144	213,619	6,154,763
Operating Expenses			
Operation and Maintenance Expenses			
Salaries and Wages - Employees	749,184	89,085	838,269
Salaries and Wages - Officers	18,000		18,000
Employee Pensions and Benefits	362,229	12,202	
		<u>(77,606)</u>	<u>296,825</u>
Purchased Water	3,149,551	180,548	3,330,099
Purchased Power	113,592		113,592
Materials and Supplies	312,837	2,745	315,582
Contractual Services	55,427	19,941	75,368
Rental of Bld./ Real Property	11,692		11,692
Transportation Expenses	55,652		55,652
Insurance- General Liability & Workers Comp.	45,800		45,800
Advertising	4,390		4,390
Bad Debt	6,870		6,870
Miscellaneous Expense	37,048		37,048
Total Operation and Maintenance Expenses	4,922,272	226,915	5,149,187
Depreciation	755,001	16,053	771,054
Taxes Other Than Income	66,340	13,199	79,539
Utility Operating Expenses	<u>5,743,613</u>	<u>256,167</u>	<u>5,999,780</u>
Net Operating Income	197,531	(42,548)	154,983
Interest and Dividend Income	43,958		43,958
Gains (Losses) from Disposition of Utility Property	1,231	(15,000)	(13,769)
Sewer Collection Fees		<u>99,673</u>	<u>99,673</u>
Income Available to Service Debt	<u>242,720</u>	<u>42,125</u>	<u>284,845</u>

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