

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BUTLER)	CASE NO.
COUNTY WATER SYSTEM, INC. FOR A RATE)	2024-00061
ADJUSTMENT PURSUANT 807 KAR 5:076)	

RESPONSE OF BUTLER COUNTY WATER SYSTEM, INC.
TO THE COMMISSION STAFF'S FIRST REQUEST FOR
INFORMATION DATED APRIL 5, 2024

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VERIFICATION OF ROBERT K. MILLER

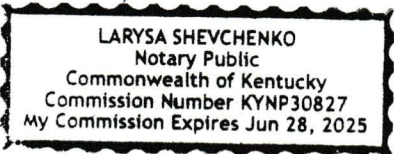
COMMONWEALTH OF KENTUCKY)
)
 COUNTY OF JEFFERSON)


Robert K. Miller, Kentucky Rural Water Association on behalf of Butler County Water System, Inc., states that he has supervised the preparation of certain responses to the Request for Information in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.



 Robert K. Miller

The foregoing Verification was signed, acknowledged and sworn to before me this 1 day of May, 2024, by Robert K. Miller.





Commission expiration: June 28, 2025

Butler County Water System, Inc.
Case No. 2024-00061
Commission Staff's First Request for Information

Witnesses: Robert K. Miller #5, 11-13, 17, 19, and 21
Jeff Peebles #1-4, 6-10, 14-16, 18, 20, and 22-23

1. Provide copies of each of the following, and when appropriate, provide in Excel spreadsheet format with all formulas, rows, and columns fully accessible and unprotected. Employee names should be redacted from all documents.

a. The general ledger in Excel spreadsheet format for the years ended December 31, 2022, and 2023.

Response: See files 1a_General_Ledger_2022
1a_General_Ledger_2023

b. A list of all year-end adjusting entries.

Response: See files 1b_Adjusting_Entries_2022
1b_Adjusting_Entries_2023

c. The trial balance in Excel spreadsheet format for the years ended December 31, 2022, and 2023, including all year-end adjustments that will appear on the financial statements.

Response: See files 1c_Trial_Balance_2022
1c_Trial_Balance_2023

d. Refer to Application Schedule of Adjusted Operations (SAO). Provide a cross reference that matches each 2022 general ledger account to each revenue and expense line in the SAO and reconcile each amount that does not match.

Response: See file 1d_Reconciliation

2. Provide a list of all general ledger accounts that reflect allocations from Warren County Water District (Warren District).

Response: See file 2_Allocations_from_Warren_County

3. Provide in an Excel spreadsheet with all formulas, rows, and columns fully accessible and unprotected, all allocation methodologies and formulas used to allocate expenses from Warren District to Butler County Water.

Response:

Joint Operations Agreement

Butler County Water System participates in a Joint Operations Agreement with Warren County Water District and Simpson County Water District. The Joint Agreement includes the following provisions:

- **Each Board of the Water Systems establishes its own policies, regulations, and rates.**
- **All Water Systems join to create a Joint Utility Committee that meets bi-annually.**
- **For all shared services, the Joint Utility Committee annually reviews and approves cost allocations.**
- **Warren Water provides employees, equipment, and other services necessary to carry out general system operations and day-to-day business of each Water System.**
- **As the lead Water System, Warren Water provides the following services:**
 - o **Information Network hosting software for the following: billing, accounting, GIS, and asset management.**
 - o **Coordination and supervision of operations, maintenance, and construction of the water systems.**
 - o **Engineering, supervision of contractors and construction inspection services for major projects, extension agreements, and customer inquiries.**
 - o **Accounting records and financial reporting.**
 - o **Coordination, supervision, and maintenance of billing and meter reading services.**
 - o **Equipment and material inventory necessary to maintain the Systems.**
 - o **Customer service and the processing of applications for service.**
- **Each Water System pays the actual cost monthly for labor, equipment, material, contractual services, and other expenses for services provided by any other Water System.**

Actual Costs – Timecard Labor and Equipment

Water Systems pay the actual cost of labor for field crews, engineering, and non-administrative personnel. The labor and equipment hours are tracked through Warren Water's timecard system and hours recorded by each employee is charged to the appropriate Water System. For example, a repair crew's workday may include time worked in more than one Water System and when this is reflected in the timecard system, the labor, truck, and backhoe time is charged to the appropriate Water System. On a monthly basis, each Water System reimburses Warren Water for the actual costs of these services.

Direct Purchases

Each Water System purchases materials and services directly without utilizing Warren Water. In addition, each Water System separately purchases assets and fund water line extensions, and obtain funding for construction projects,

Rates and Allocations

At the beginning of each year, the Joint Utility Committee reviews and approves a Rates and Allocations Memo (Reference Rates and Allocations Memo dated January 24, 2022) that outlines the following standard cost sharing allocations:

1. **Allocation of administration wages and other shared expenses.** This allocation is based upon prior year's total number of customers and each Water System's percentage of the total. For year 2022, the allocation was Warren Water 64.6%, Warren Sewer 18.0%, Butler 10.2%, and Simpson 7.2%.

Reasoning: Certain administrative employees support operations of all three Water Systems daily. These positions benefit all utilities and typically are proportionate to the number of customers or size of the Water System. Positions that are allocated based upon percentage of customer include the General Manager, Manager of Finance & Administration, Manager of Water Quality & Operations, and Billing Administrator

See files 3_Allocation_Schedule_1
 3_Allocation_Schedule_2

If services, materials, and other items purchased benefit multiple Water Systems then the cost is allocated based upon the percentage of customers served by the benefiting Systems. Examples include billing and accounting software maintenance & support, asset management and GIS software support, after hours call center service, and employee training.

2. **Distribution within each Water System of allocated administrative wages.** Allocated administrative wages recorded to each Water System are recorded to expense and capital based upon the prior years' percentage breakdown of direct timecard wages. For year 2022 administrative wages, the expense and capital breakdown was 59% and 41%, respectively. The breakdown of the General Manager's wages was 30% expense and 70% capital.

Reasoning: Certain administrative positions support each Water System's daily operation and maintenance. In addition, these positions maintain utility facilities, record fixed assets, coordinate construction, and plan future projects. The allocation of the General Manager's wages is weighted toward current and future planning and capital projects.

3. **Employee Overhead Rate.** The overhead rate is applied to wages worked and allows Warren Water 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. The overhead reimbursement amount is charged to the Water Systems by multiplying employee wages worked by the overhead rate. For year 2022, the initial overhead rate was 63.1%, and the final overhead rate was 64.6%.

4. Provide the following information related to billing software:

- a. State whether the billing software and general ledger/financial management software are separate or integrated.

Response: The billing software and general ledger / financial management software are separate.

- b. Brand or common name for software.

Response:	<u>Software Type</u>	<u>Brand Name</u>
	Billing system	CIS Infinity
	Ledger/financial management	Sage 100

- c. State whether the software is locally installed on a utility-owned computer or is a subscription service that is internet based.

Response: The software is locally installed on a utility-owned computer.

- d. If locally installed, state the installation date.

Response:	<u>Software Brand</u>	<u>Installation</u>
	CIS Infinity	12/19/2011
	Sage 100	1/01/1999

- e. State whether the system is still serviced by the manufacturer and whether the utility maintains a service contract.

Response:	<u>Brand Name</u>	<u>Serviced by Manufacturer</u>	<u>Maintains Service Contract</u>
	CIS Infinity	Yes	Yes
	Sage 100	Yes	Yes

5. Refer to the Application, SAO, Adjustment References. Provide all workpapers used to generate the proposed adjustments. The workpapers should tie to the general ledger accounts that comprise the SAO line items, including any adjustment for unreconciled amounts.

**Response: See file 5_Butler_County_Rate_Model
Tab SAO-DSC**

6. Refer to the Application, Attachment 4, 4_SAO_With_Attachments.pdf, References, Adjustment C. Using a table format, provide an Excel spreadsheet with all formulas, rows, and columns fully accessible and unprotected that lists each position (Position 1, Position 2, etc.) job title, hours worked, pay rate, total wages paid, and total FICA cost for each employee for the years ended December 31, 2022, and 2023. Include the date the employee was hired and, if applicable, the employee's termination date. The table should include a column for total wages by employee (regular wages and overtime) and a row for total wages for all employees. Employee names should be redacted from all documents.

Response: This response includes schedules providing total employee wage data for Warren County Water District for years 2022 and 2023. Included in the Warren schedules are employment status, FICA, and allocation method. Schedules providing employee wage data for Butler County are in separate schedules for years 2022 and 2023.

See files **6_Positions_2022_Schedule_1**
 6_Positions_2022_Schedule_2
 6_Positions_2023_Schedule_1
 6_Positions_2023_Schedule_2

- a. Provide calculations by employee that support pro forma wages of \$527,285. This may be provided as a separate table or combined with the table above. If a position is recently vacated but the intent is to fill it, note the vacancy and the amount of time that it has been vacant.

Response: See file **6a_Proforma_Wages**

- b. Provide a summary of overtime hours worked and costs that were due to vacant positions and thus will be eliminated when the vacant positions are filled.

Response: No significant overtime hours were incurred due to vacant positions. Most vacancies were short in duration and the flexibility of the Water Systems joint operations structure allows for personnel to be dispatched to cover short-term vacancies until replacements are selected.

- c. Distribute the increase of \$97,270 in pro forma labor costs in the following format:

Description	Amount	Percent
Gross Test Year Wages	\$430,015	
Charged to Tap Fees/Capitalized ()		
Reported Test Year Wages	430,015	
Wage Rate Inflation		
Merit/Promtional Increases		
Postions Added Since Beginning of Test Year		
Turnover During Test Year		
Pro Forma Wages	\$527,285	

Response:

BUTLER COUNTY WATER SYSTEM		
Pro Forma Wage Distribution		
Description	Amount	Percent
Gross Test Year Wages	\$ 430,015.00	
Charged to Tap Fees/Capitalized ()	-	
Reported Test Year Wages	430,015.00	81.6%
Wage Inflation Rate	45,515.00	10.6%
Merit/Promotional Increases	21,225.00	4.0%
Positions Added Since Beginning of Test Year	16,312.00	3.1%
Turnover Since Test Year	(15,718.00)	-3.0%
Customer Wage Shift from Capital to Operating Expense	29,937.00	5.7%
Pro Forma Wages	\$ 527,286.00	100.0%

7. Provide certificates of insurance and most recent invoices for general liability, workers' compensation, automobile, property, and casualty for 2022 and 2023.

Response: See file 7_Insurance

8. Provide the minutes from Butler County Water's Board of Commissioners' (Board) meetings for the calendar years 2022, 2023, and year to date 2024.

Response: See files [8_Minutes_22](#)
[8_Minutes_23](#)
[8_Minutes_24](#)

9. Provide a document listing the name of each member of the Board for each of the calendar years 2022, 2023, and 2024 and state, individually, the total amount of each benefit paid to, or on the behalf of, each director during each year (i.e., wages, health insurance premiums, life insurance premiums, FICA taxes, etc.), their term (beginning and ending), and current authorized annual compensation.

**Response: See files 9_Board_List
 9_Board_Compensation**

- a. Provide documentation from the Fiscal Court that authorizes each Board member's appointment and compensation.

Response: Butler Water is a non-profit corporation organized in accordance with KRS 273 on February 16, 1971. In accordance with the Articles of Incorporation, Bylaws of the corporation, and KRS 273, the Board of Directors of the corporation are elected for a three (3) year term by the attending membership at its annual meeting in April of each year.

- b. Provide training records for each board member for 2022, 2023, and year to date 2024.

Response: The annual compensation for each Director does not exceed \$3,600. Therefore, in accordance with KRS 74.020, annual training is not required.

- c. Provide a list of every member currently on the Butler Water System board of water commissioners, their role, when they were originally appointed, and the expiration of term.

Response: See file 9c_Board_Members

10. Provide the following with respect to new tap installations.

a. The number of installations during the test year.

Response: 36 Installations.

See file 10_Meter_Installations, column 10(a)

b. State whether labor costs were capitalized and, if so, provide the total amount and designate the line in the fixed assets listing that reflects the capitalization.

Response: Labor costs are capitalized.

See file 10_Meter_Installations, column 10(b)

c. State whether material costs were capitalized and, if so, provide the total amount and designate the line in the fixed assets listing that reflects the capitalization.

Response: Material costs are capitalized.

See file 10_Meter_Installations, column 10(c)

11. State the last time Butler County Water performed a cost-of-service study (COSS) to review the appropriateness of its current rates and rate design.

Response: Butler County Water performed a cost-of-service study to review the appropriateness of its current rates and rate design in 2004. The study was submitted to KYPSC as part of Case No. 2003-00486.

- a. Explain whether Butler County Water considered filing a COSS with the current rate application and the reasoning for not filing one.

Response: Butler County Water did not consider filing a COSS with the current rate application because there have not been any material changes to the system that would cause a new COSS to be prepared.

- b. Explain whether any material changes to Butler County Water would cause a new COSS to be prepared since the last time it completed one.

Response: Yes, material changes to Butler County Water system would cause a new COSS to be prepared.

- c. If there have been no material changes to Butler County Water, explain when Butler County Water anticipates completing a new COSS.

Response: Butler County Water anticipates completing a new COSS after material changes to the system.

- d. Provide a copy of the most recent COSS that has been performed for Butler County Water in Excel spreadsheet format with all formulas, rows, and columns fully accessible and unprotected.

Response: 11d_Previous_COSS

12. Refer to the Application, Current Billing Analysis 2022 Usage and Existing Rates and Proposed Billing Analysis 2022 Usage and Proposed Rates.
- a. Provide the billing analysis in Excel Spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.

Response: Refer to attachment: 12a_Billing_Analysis

- b. Describe adjustments to the billing analysis and the justification for each.

Response: The following adjustments were made to the Billing Analysis, negative and incorrect minimum bills. Below are the explanations.

1. **Negative Usage – if a customer is billed the incorrect usage, the incorrect bill is cancelled and the bill is reissued with the correct usage. The accounts with amounts are bills where the reissued bill was less than the cancelled bill resulting in a credit. A cancel/rebill is performed for the following:**
 - a. **Cut wires - damage to the wiring on the electronic registers.**
 - b. **Incorrect readings.**
 - c. **Leak at the meter/yoke leaking - Usage billed to the customer but determined by field personnel to be on the District's side of the service line.**
 - d. **Incorrect refund amount - Customers who received local grant assistance are required to return unused balances to community action credit balance when they terminate their service.**
 2. **Incorrect Minimum Bill**
 - a. **Adjustments to customer bills for reasons stated above in 1.**
 - b. **Prorating of first and final bills – most of the “less than minimum” amounts are customer bills prorated for less than one month usage when customer begins or terminates service.**
- c. Provide an analysis of the proposed pro forma adjustment to metered revenues of \$23,666.

Response: The proposed adjustment to metered revenues of \$23,666 represents unbilled revenues. The billing analysis reflects the actual gallons that were used and billed in the test year. Because the billing period is before the year end Butler System estimated the revenues for the period from the billing date to the year-end.

13. Refer to the Application, Exhibit 4, 4_SAO_With_Attachments.pdf, Revenue Requirement table. Also refer to the Annual Report of Butler County Water to the Public Service Commission for the Calendar Year Ended December 31, 2022 (2022 Annual Report), at 20.

- a. In the Revenue Requirement Table, Interest Income is reported as \$10,548, however in the 2022 Annual Report Interest and Dividend Income (419) on page 20 is reported as \$28,351.70. Reconcile and explain the difference.

Response: Interest income of \$10,548 from year 2021 was incorrectly reported as income for the test year 2022. The correct amount of interest income is \$28,351.70.

- b. In the Revenue Requirement Table, Nonutility Income is reported as \$348, however in the 2022 Annual Report Nonutility Income (421) is reported as \$684.40. Reconcile and explain the difference.

Response: Nonutility Income of \$348 from year 2021 was incorrectly reported as income for the test year 2022. The correct amount of nonutility income is \$684.40.

14. Provide the number of occurrences and dollar amounts for late fees that were recorded during the calendar years 2022 and 2023.

Response:	Year	Occurrences	Amount
	2022	7,979	\$32,404.91
	2023	8,645	\$33,785.80

15. Provide a schedule listing the number of occurrences for each nonrecurring charge listed in the current tariff that was recorded during the test year and the total amount recorded for each nonrecurring charge. If the revenue for any nonrecurring charge was zero, include that charge and indicate that no revenue was recorded. Include the general ledger account numbers where each nonrecurring charge is recorded.

Response: See file 15_Nonrecurring_Charges

- a. Provide updated cost justification sheets to support each nonrecurring charge listed in Butler County Water's tariff.

Response: See file 15_Nonrecurring_Charges_Cost_Justifications

- b. Provide updated cost justification sheets to support each Meter Connection/Tap-on Charge listed in Butler County Water's tariff.

Response: See file 15_Tap_Fee_Cost_Justification

16. Refer to the Application, Exhibit 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment J. Provide an explanation of why Butler County Water requests a change in the service life in the AMR meters. Include in this explanation, any engineering reports, testing reports, or technical specifications that support the current 20-year service life and the proposed 10-year service life for the AMR meters.

Response: Sample testing of Badger M25 Size 5/8” meters indicates meters approaching 10 years of service do not meet AWWA accuracy standards. These meters were purchased with a 15-year warranty and were recorded in Butler’s fixed assets with an estimated life of 20 years. The estimated life of 20-years was based upon the M25 meter performance at other utilities and the performance of a similar meter utilized by Warren, Butler, and Simpson, the Sensus SR II, which maintains accuracy beyond 20 years.

In March 2023, crews began removing Badger M25 meters that had been in service for 10 years. The accuracy testing of 48 meters resulted in 31 of the samples failing AWWA meter accuracy. Meters were tested at Warren’s certified meter shop by a certified meter technician. The results of the sample testing are below:

<u>Water System</u>	<u>Total</u>	<u>Passed</u>	<u>Failed</u>	<u>Failure %</u>
Warren	39	12	27	69.2%
Butler	2	1	1	50.0%
Simpson	7	4	3	42.9%
Total	48	17	31	64.6%

Other Badger M25 meters removed from service throughout the months January and July 2023 were tested and showed several meters did not meet accuracy standards after 9 years of service. These results are below:

<u>Age</u>	<u>Total</u>	<u>Passed</u>	<u>Failed</u>	<u>Failure%</u>
Less than 1	21	21	0	0.0%
1	41	41	0	0.0%
2	24	24	0	0.0%
3	30	30	0	0.0%
4	28	25	3	10.7%
5	16	15	1	6.3%
6	25	21	4	16.0%
7	34	34	0	0.0%
8	33	32	1	3.0%
9	155	75	80	51.6%
10	15	12	3	20.0%
	422	330	92	21.8%

Based upon the test results, the 20-year depreciation period is overstating the life expectancy of the Badger M25 meters. As a result, the estimated life was changed to 10 years which appropriately reflects the performance of the meters tested.

17. Refer to the Application, Exhibit 7, 7_Depreciation_Schedule_2022.pdf. Provide an Excel spreadsheet with all formulas, rows, and columns fully accessible and unprotected, a fixed asset list that is used to generate the Depreciation Schedule.

Response: 17_Depreciation

18. Refer to Butler County Water's Tariff, PSC Ky. No. 1, Original Sheet No. 11, Billing, Meter Readings and Related Information, Frequency of meter reading.

- a. Provide the date that Butler County Water's billing cycle begins (meter read date).

Response: Cycle 2 read date starts the 18th of each month.

- b. State whether the date that the billing cycle begins is the date that would be best stated as the effective date of any order the Commission issues concerning rates in this case.

Response: Yes, this date would be best stated as the effective date of any order the Commission issues concerning rates in this case.

19. Refer to the Application, Attachment 8, 8_Debt_Amortization_Schedules.pdf. For each outstanding debt issuance still active, provide the case number in which Butler County Water was authorized to issue the debt.

Response: Kentucky Rural Water Finance (KRWFC), Series 2012G – Refinancing: Case No. 2012-00474, Application Of Butler County Water System, Inc. To Issue Securities in the Approximate Principal Amount of \$3,085,000 for the Purpose of Refunding Certain Outstanding Indebtedness of The Association Pursuant to the Provisions of KRS 278.300 And 807 KAR 5:001, Final Order issued November 9, 2012.

United States Department of Agriculture, Rural Development (USDA, RD), Series 91-24, Water Treatment Plant Improvements: Case No. 2014-00353, Application of Butler County Water System, Inc. (1) for a Certificate of Public Convenience and Necessity Authorizing Said System to Construct Major Improvements and Additions to its Existing Municipal Water Treatment System Financed by Rural Economic and Community Development Service (Formally Farmers Home Administration) Pursuant To The Provisions of KRS 278.023 of The Kentucky Revised Statutes; And (2) Seeking Approval of the Issuance of Certain Securities, and (3) Approval of Water Rates, Final Order issued October 27, 2014.

USDA, RD, Series 91-26, Line Extensions and AMR System: Case No. 2018-00048, Electronic Application of Butler County Water System, Inc., Butler County, Kentucky, (1) for a Certificate of Public Convenience and Necessity Authorizing Said System to Construct Major Improvements and Additions to its Existing Municipal Water Distribution System Financed by Rural Economic and Community Development Service (Formally Farmers Home Administration) Pursuant to the Provisions of KRS 278.023 Of The Kentucky Revised Statutes: And (2) Seeking Approval of the Issuance of Certain Securities, and (3) Approval of Water Rates, Final Order issued March 1, 2018, Nunc Pro Tunc Order issued March 20, 2018.

KRWFC Series 2021B, Refinancing: Case No. 2021-00016, Electronic Application of the Butler County Water System, Inc. to Issue Securities in the Approximate Principal Amount of \$840,000 for the Purpose of Refunding Certain Outstanding Obligations of the Association Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001, Order issued March 12, 2021.

20. Refer to the 2022 Annual Report, Comparative Operating Statement, at 20, Gains (Losses) from Disposition of Utility Property (414). Provide an explanation for the transactions that account for the \$5,839.90 balance.

Response: During the year, 20 meters were removed from service and scrapped due to age and declining accuracy. These meters could not be repaired and were subsequently scrapped. The remaining book value of the meters totaling \$5,839.50 were recorded as a loss on disposition. A breakdown of the disposition is provided:

See file: 20_Scrapped_Meters

21. Refer to the Application, Exhibit 4, 4_SAO_With_Attachments.pdf, SAO, Adjustment B. Also refer to the Application, Exhibit 4, 4_SAO_With_Attachments.pdf, References List, Adjustment B. In the SAO, Adjustment B reflects a decrease to Private Fire Protection of \$5,344. However, in the references list, Adjustment B reflects a decrease to Fire Protection Revenues of \$4. Reconcile and explain the difference between the two proposed adjustments.

Response: Refer to Attachment 5 of the Application, 5_Billing_Analysis_Current_Rates. The reported Fire Protection Revenue was \$6,685 and the billing analysis produces Fire Protection Revenue of \$6,680.88, which requires a decrease of \$4.12. The reference to a \$5,344 decrease was an error and should be ignored.

22. Refer to the Application, Exhibit 4, 4_SAO_With_Attachments.pdf, SAO, Salaries and Wages Employee and Contractual Services. Explain the cost classification of Warren District's services and whether Butler County Water includes those costs as contractual services or salaries and wages. If these costs are allocated to different locations for different services, provide reasoning and calculations for each of the allocations.

Response: See file 22_Classification_of_Services

23. Refer to the Application, Exhibit 4, 4_SAO_With_Attachments.pdf, SAO, Contractual Services - Other.

a. Provide a list of each contractor that has a cost allocation to the Contractual Services Account Balance.

Response: See file 23_Contractors

b. Provide the corresponding amounts for each contractor.

Response: See file 23_Contractors