

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)	

ORDER

On February 4, 2023,¹ East Daviess County Water Association, Inc. (East Daviess Water) filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. East Daviess Water filed this proceeding in compliance with the Commission’s Order in Case No. 2022-00112.² In that proceeding, East Daviess Water was ordered 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.

In its application, East Daviess Water requested rates that would increase its annual water sale revenues by \$197,432, or 9.27 percent increase to pro forma present rate water sale revenues.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated February 20, 2023, which, among other things,

¹ 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 is deemed filed on February 4, 2023.

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

required the Commission Staff to file a report containing its recommendations regarding East Daviess Water's application. East Daviess Water responded to two data requests for information from Commission Staff.

Commission Staff issued its report (Commission Staff's Report) on June 27, 2023, summarizing its findings and recommendations regarding East Daviess Water's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that East Daviess Water's adjusted test-year operations support an overall revenue requirement of \$2,484,937, and that an annual revenue increase of \$184,156, or 8 percent, is necessary to generate the overall revenue requirement. In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

On June 29, 2023, East Daviess Water filed its response to Commission Staff's Report. In its written comments, East Daviess Water disagreed with Commission Staff's removal of labor expenses from nonrecurring charges, but did not dispute that adjustment. East Daviess Water stated that it reserved the right to challenge a similar finding in a future proceeding. East Daviess Water stated that it does not have a Tap Fee Tandem Service charge and requested that it be removed from the final Order. East Daviess Water agreed with the remainder of Commission's Staff Report and did not request an informal conference or hearing be held.³ The case now stands submitted for a decision by the Commission.

³ East Daviess Water Written Comment (filed June 29, 2023), unnumbered page 1.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, East Daviess Water is allowed to charge its customers "only fair, just and reasonable rates."⁴ Further, East Daviess Water bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

East Daviess Water is a water association organized pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it provides water service to approximately 4,766 residential customers, 104 commercial customers, 13 industrial customers, and 4 public fire protection organizations in Daviess, Hancock, and Ohio Counties, Kentucky.⁵ East Daviess Water does not produce any of its own water; rather, it purchases its water from Owensboro Municipal Utilities. A review of the Commission's records indicates this is East Daviess Water's first alternative rate adjustment since 2016.⁶

⁴ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

⁵ *Annual Report of East Daviess Water to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

⁶ Case No. 2016-00177, *Application of East Daviess County Water Association, Inc. for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 11, 2016).

UNACCOUNTED-FOR WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. As noted in the Commission Staff's Report, East Daviess Water's test-year water loss was 15.6755 percent. Accordingly, Staff reduced test-year expenses by \$6,974 to account for the 0.6755 percent excess water loss.⁷ East Daviess Water reported a water loss of 15.6755 percent in its 2021 Annual Report.⁸ At a 15.6755 percent water loss, the annual cost of water in excess of 15 percent is \$6,974, and the total cost of water loss to East Daviess Water is \$161,843 as calculated below.

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

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

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and encourages East Daviess Water to continue monitoring its level of water loss.

TEST PERIOD

The calendar year ended December 31, 2021 was used as the test year to determine the reasonableness of East Daviess Water's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

⁷ Commission Staff's Report at 3.

⁸ 2021 Annual Report at 57.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes East Daviess Water's pro forma income statement as follows:

	<u>Test-Year Operations</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 1,924,243	187,220	\$ 2,215,379
Operating Expenses	<u>1,541,828</u>	<u>298,122</u>	<u>2,110,086</u>
Total Utility Operating Income	<u>\$ 216,194</u>	<u>\$ (110,901)</u>	<u>\$ 105,293</u>

REVIEW AND MODIFICATIONS TO COMMISSION
STAFF'S RECOMMENDATIONS

East Daviess Water proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the findings and recommendations contained in the Commission Staff's Report. The Commission will make one modification to remove the Tap Fee Tandem Service from the nonrecurring charges contained in Commission Staff's Report. This is because, per East Daviess Water, the utility does not have a Tap Fee Tandem Service charge. The Commission has no further modifications.

REVENUE REQUIREMENTS

Billing Analysis. 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.⁹ Since the filing of this alternative rate adjustment application a second purchase water adjustment has increased rates.¹⁰

In the Commission Staff's Report, Commission Staff recommended a total increase to East Daviess Water's metered retail water sales of \$348,885 and \$8,670 to sales for resale to reflect the rate increases for both purchase water adjustments.¹¹

The Commission finds that this adjustment is reasonable because an increase to East Daviess Water's metered retail water sales and sales for resale reflect the rate increases for the recent purchase water adjustments.

Miscellaneous Service Revenues. East Daviess Water reported test year Miscellaneous Service Revenues of \$38,581.¹² In responses to Staff's First and Second Requests, East Daviess Water provide clarification and information to clarify the Miscellaneous Revenues. The information that was provided detailed that \$10,786 was for non-operating revenues and should be removed. Additionally, Commission Staff adjusted nonrecurring charges by removing Field Labor Costs and Office/Clerical Labor Costs for the services that occur during normal working hours., and removed Office/Clerical Labor Costs for the After Hour Charges , for a reduction of \$10,040 to Miscellaneous Service Revenues. These two adjustments equal a total of \$20,826, and with this adjustment the Proforma for Miscellaneous Revenues is \$17,755.

⁹ Case No. 2022-00112, June 2, 2022 Order.

¹⁰ Case No. 2023-00138, *Electronic Purchased Water Adjustment Filing of East Daviess County Water Association, Inc.* (Ky. PSC May 31, 2023).

¹¹ Commission Staff's Report at 8–9.

¹² Application, Attachment 4, Schedule of Adjusted Operations.

The Commission finds that this adjustment relating from the removal of \$20,826 from miscellaneous service revenues is reasonable as these adjustments were for reductions of the nonrecurring charges and removal of non-operating revenues.

Other Water Revenues. East Daviess Water reported test year Other Water Revenues of \$16,757.¹³ 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.¹⁴

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

The Commission finds that this adjustment is appropriate as an extraordinary revenue item that is not anticipated to recur.

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff removed Field Labor costs and Office/Clerical Labor costs from the non-After-Hours charges and removed the Office/Clerical Labor costs from the After-Hours charges. Commission Staff also noted in the Commission Staff's Report that some of the charges may be higher than the current charges due to the updated wages and benefits paid to the work force as well as costs of materials and supplies.

The Commission agrees with the Commission Staff's Report, which is consistent with recent Commission decisions, that labor expenses resulting from work during normal business hours should not be recovered through nonrecurring charges.¹⁵ The

¹³ Application, Attachment 4, Schedule of Adjusted Operations.

¹⁴ East Daviess Water's Response to Commission Staffs First Request (Staff's First Request) (filed Mar. 24, 2023), Item 1a, 1._(a)_2021_Ledger_Analysis.xls.

¹⁵ Case No. 2020-00141, *Electric Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment*, (Ky. PSC Nov. 6, 2020), Order at 19–20.

Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred and recover in customer rates as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours. Only the marginal cost related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. For the reasons discussed above, the estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges as proposed by Commission Staff and a corresponding reduction to Other Operating Revenues should be made to reflect the changes in the nonrecurring charges. Thus, the Commission finds the revised nonrecurring charges described in the Appendix and the decrease of \$10,040 to Other Water Revenues to be reasonable.

East Daviess Water provided cost justification sheets to revise and update the 5/8- x 3/4- Inch Tap Fee. In Commission Staff's Report, Commission Staff included 5/8- x 3/4- Inch Tandem Tap Fee in the Appendix to the report. In East Daviess Water's response to Commission Staff's Report, East Daviess Water explained that they have no such charge and asked the Commission to remove this charge from its approved charges and rates. The Commission finds that this request to remove the 5/8- x 3/4- Inch Tandem Tap Fee and the other revisions and updates are reasonable.

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

2021.¹⁶ East Daviess Water stated that the increase in wages is due to employee turnover and an additional employee since 2021.¹⁷

In Commission Staff's Report, Commission Staff stated that East Daviess Water's adjustments met the ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

The Commission finds that this adjustment is a known and measurable change to Salaries and Wages – Employees, is reasonable, and should be accepted.

Tap Labor and Materials. In its application, East Daviess Water stated that \$48,386 in tapping fees were collected in the test year 2021.¹⁸ 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.

In Commission Staff's Report, Commission Staff stated that East Daviess Water's adjustments met the ratemaking criteria of being known and measurable because of the known increase in the tap fee rate, and Commission Staff included the adjustments in pro forma operating expenses.

¹⁶ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment C and L.

¹⁷ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment C.

¹⁸ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment B.

The Commission finds that this adjustment to Tap Labor and Materials, is reasonable, and should be accepted.

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.¹⁹ 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.²⁰

In Commission Staff's Report, East Daviess Water's 2021 general ledger was reviewed, and Commission Staff noted that East Daviess Water had a medical expense of \$106,542.²¹ East Daviess Water provided a pro forma total health insurance premium amount of \$101,455 in response to Staff's First Request.²² 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.²³ Commission Staff reviewed East Daviess Water's general ledgers and trial balances for 2022 and 2023 year to date and

¹⁹ Application, Attachment 4, Statement of Adjusted Operations, References Adjustment D.

²⁰ Application, Attachment 4, Statement of Adjusted Operations, References Adjustment E.

²¹ East Daviess Water's Response to Staffs First Request, Item 1a, 1._(a)_2021_Ledger_Analysis.xls.

²² East Daviess Water's Response to Staffs First Request, Item 8, 8._Rate_Analysis_2023.xls.

²³ East Daviess Water's Response to Staffs First Request, Item 5, 5._2022_Board_Meeting_Minutes.pdf at 12.

found that East Daviess Water’s Pension Contribution rate had not increased from 3 percent since June of 2022.²⁴ 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	3.00%
Total Pro Forma Pension Contribution	11,984
Less: Test Year Pension Contribution	(11,716)
Pension & Benefits Adjustment	<u>\$ 268</u>

Commission Staff calculated two adjustments to Employee Pensions and Benefits expense. Commission Staff’s first adjustment is a total 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 total 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 Commission agrees with the recommendations in the Commission Staff Report and finds that the recommended adjustments are reasonable because they reflect

²⁴ 9 East Daviess Water’s Response to 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.

the allowable health insurance premium based on the pro forma total health insurance premium, reflect the 2021 difference in medical expenses, and they factor in the pro forma total health insurance premium and pension adjustment.

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.²⁵ 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.²⁶

Commission Staff calculated a total increase of \$338,440 to Purchased Water expense to reflect the increase in wholesale water rate from Owensboro Municipal Utilities using the table below.

	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	<u>\$ 338,440</u>

The Commission agrees with the recommendations in the Commission Staff Report and finds that the recommended adjustments are reasonable because they reflect the wholesale water rate increase.

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

²⁶ 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* (filed May 1, 2023), Owensboro Municipal Utilities Notice of Increase.

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 Purchased Power expense.²⁷

In the Commission Staff’s Report, staff agreed with East Daviess Water’s proposed adjustment to Purchased Power expense. Commission Staff calculated a total 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.

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

The Commission finds that this adjustment is a known and measurable change to Purchased Water Expense and Purchased Power Expense, is reasonable, and should be accepted.

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.²⁸ 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

²⁷ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment F.

²⁸ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment H.

software system is more efficient, user friendly and easier to train new employees.²⁹ 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.³⁰

In the Commission Staff's Report, East Daviess Water's 2021 general ledger was reviewed to find the service charges paid to United System & Software, Commission Staff calculated a total increase of \$51,667 to Materials and Supplies using the table below.³¹ 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.

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

The Commission agrees with the recommendations in the Commission Staff Report and finds that the recommended adjustments are reasonable because they meet the ratemaking criteria of being known and measurable.

²⁹ East Daviess Water Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Apr. 24, 2023), Item 1b.

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

³¹ East Daviess Water's Response to Staffs First Request, Item 1a,1._(a)_2021_Ledger_Analysis.xls.

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.³² East Daviess Water provided a notice from Brown Service Company stating the increase in service charges.³³ In response to Staff’s Second Request, East Daviess Water stated that some spending was deferred from 2020 to 2021.³⁴ 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.³⁵

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

Commission Staff made two adjustments to Contractual Services – Other expense based on the spending normalization calculation 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

³² East Daviess Water proposed an increase of \$58,002 to Contractual Services – Other expense to reflect the 100% increase in service fees from Brown Service Company.

³³ East Daviess Water Response to Staff’s Second Request, Item 1c, 1.(c)_BSC_Notice_of_increase.pdf.

³⁴ East Daviess Water Response to Staff’s Second Request, Item 3.

³⁵ East Daviess Water’s Response to Staffs First Request, Item 1a,1.(a)_2021_Ledger_Analysis.xls,1.(a)_2022_Ledger_Analysis.xls,and 1.(a)_2023_Ledger_Analysis.xls.

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	\$ 81,484	\$ 42,508	\$ 123,992

The Commission agrees with the recommendations in the Commission Staff Report and finds that the recommended adjustments are reasonable because they reflect normalized spending amounts.

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.³⁶

Commission Staff agreed that East Daviess Water adjustments met the ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

The Commission agrees with the recommendations in the Commission Staff Report and finds that the recommended adjustments meet the ratemaking criteria of being known and measurable.

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

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.

	<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>

Commission Staff agreed that East Daviess Water adjustments met the ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

The Commission agrees with the recommendations in the Commission Staff Report and finds that the recommended adjustments are reasonable.

Depreciation. East Daviess Water reported a test year Depreciation expense of \$239,075. East Daviess Water proposed to increase its test year Depreciation expense by \$75,015³⁷ 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).³⁸ In the Commission Staff Report, Commission Staff agreed with East Daviess Water proposed adjustment and increased pro forma Depreciation Expense by \$75,015. The

³⁷ Commission Staff's Report at 18, Section M.

³⁸ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment K.

Commission finds that this adjustment to Depreciation Expense, is reasonable, and should be accepted.

Based upon the Commission’s findings discussed above, the following table summarizes East Daviess Water’s adjusted pro forma:

	<u>Commission Staff’s Report</u>		
	Pro Forma	Commission Adjustments	Final Pro Forma
Total Operating Revenues	\$2,215,379	\$141,847	\$ 2,357,226
Utility Operating Expenses	<u>2,110,086</u>	<u>119,895</u>	<u>2,229,982</u>
Net Utility Operating Income	216,194	21,952	127,244
Interest and Dividend Income	<u>-</u>	<u>6,533</u>	<u>6,533</u>
Total Utility Operating Income	<u>\$ 216,194</u>	<u>\$ 28,485</u>	<u>\$ 133,777</u>

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.³⁹ Commission Staff increased Interest Income by \$6,533 for the omission.

The Commission agrees with the Commission Staff’s adjustment and finds that the recommended adjustments meet the ratemaking criteria of being known and measurable.

OVERALL REVENUE REQUIREMENT

The Commission has historically used an Operating Ratio method to calculate the revenue requirement for water districts or associations with little or no outstanding long-term debt. The Commission finds the Operating Ratio method is appropriate for East Daviess Water. An Operating Ratio of 88 percent will allow East Daviess Water sufficient

³⁹ 2021 Annual Report at 20.

revenues to cover its operating expenses and provide for reasonable equity growth. Based upon the Commission’s findings and determinations herein, East Daviess Water requires an increase in revenues from water sales of \$184,156, or 8 percent above pro forma present water rate revenues as shown below. This increase is required for East Daviess Water to remain operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 2,229,982
Operating Ratio	<u>88%</u>
Sub-total	2,534,070
Plus: Interest Expense	<u>13,845</u>
Total Revenue Requirement	2,547,915
Less: Other Operating Revenue	(56,445)
Interest Income	<u>(6,533)</u>
Revenue Required From Sales of Water	2,484,937
Less: Revenue from Sales with Present Rates	(2,274,268)
Sales for Resale	<u>(26,513)</u>
Required Revenue Increase	<u><u>\$ 184,156</u></u>
Percent Increase	<u><u>8.00%</u></u>

RATE DESIGN

East Daviess Water proposed to increase its monthly retail water service rates and monthly wholesale water service rates evenly across-the-board by approximately 9.27 percent. East Daviess Water has not performed a COSS. East Daviess Water stated that it did not complete a COSS because there have not been any material changes in customer usage patterns to warrant a COSS.

The Commission finds that in the absence of a cost-of-service study, the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to East Daviess Water’s customers.

The rates set forth in the Appendix to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from water sales to recover the \$2,484,937 Revenue Required from Water Sales, an approximate 8 percent over normalized test-year water sales of \$2,274,268. The monthly bill of a typical residential customer using 4,000 gallons of water will increase from \$36.54 to \$39.46, an increase of \$2.92, or approximately 8 percent.

East Daviess Water responded to Staff's First Request⁴⁰ that the most appropriate effective date for any increase in monthly or nonrecurring charges should be effective on the 18th of the month. The Commission agrees that East Daviess Water's request is reasonable and therefore the effective date for the monthly water service rates and the nonrecurring charges will be August 18, 2023.⁴¹

RATE CASE FREQUENCY

In Case No. 2019-00041 and the resulting investigative report, the Commission discussed the problems that can occur when utilities avoid a review of their financial records.⁴² A key recommendation from that investigative report was that water utilities should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁴³ In light of its findings in Case No. 2019-00041, the Commission noted, in Case No. 2022-00112,⁴⁴ that East Daviess Water had

⁴⁰ East Daviess Water's Response to First Staff Request, Item 12.

⁴¹ East Daviess Water's Response to First Staff Request, Item 12.

⁴² Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019), Order.

⁴³ Case No. 2019-00041, Nov. 22, 2019 Order.

⁴⁴ Case No. 2022-00112, June 2, 2022 Order.

not sought a base rate adjustment since 2016.⁴⁵ Because it had been more than five years since the Commission last reviewed East Daviess Water's rate sufficiency and financial records, the Commission ordered East Daviess Water to file an application for general or an alternative rate adjustment within three years of the date of filing of the Order in Case No. 2022-00112.⁴⁶

The Commission recommends that East Daviess Water conduct internal financial reviews on an annual basis to ensure that its water rates are sufficient. The Commission also recommends that East Daviess Water's board of commissioners consider filing periodic rate cases with the Commission every three to five years and implement a written policy to that effect to maintain a regular review of the utility's finances. These are good practices to ensure that there is not a seven-year gap between base rate cases in the future. If East Daviess Water needs assistance in conducting its annual internal rate reviews to ensure the sufficiency of its rates, East Daviess Water can request the Commission to allow its Financial Analysis Staff to assist with the annual rate analysis.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report are supported by the evidence of record and are reasonable. By applying the Operating Ratio method to East Daviess Water's pro forma operations results in an Overall Revenue Requirement of \$2,547,915, a required revenue from water sales of \$2,484,937, and an increase in revenue from water sales of \$184,156, or 8.00 percent.

⁴⁵ Case No. 2016-00177, Oct. 11, 2016 Order.

⁴⁶ Case No. 2022-00112, June 2, 2022 Order, ordering paragraph 5.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The water service rates proposed by East Daviess Water are denied.

3. The water service rates set forth in the Appendix to this Order are approved for service rendered by East Daviess Water on and after August 18, 2023.

4. The Nonrecurring Charges set forth in the Appendix to this Order are approved for service rendered by East Daviess Water on or after August 18, 2023.

5. Within 20 days of the date of service of this Order, East Daviess Water shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

6. East Daviess Water shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

7. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00025 DATED AUG 07 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
Over	30,000 Gallons	0.00725	Per Gallon
Over	50,000 Gallons	0.00639	Per Gallon

Leak Adjustment Rate

\$0.00520	Per Gallon
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Wholesale Rate

\$0.00440	Per Gallon
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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	\$24.00
Service Call/Investigation Charge After Hours	\$118.00
5/8 x 3/4 Tap Fee	\$1,350.00

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