

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EAST CASEY )	CASE NO.
COUNTY WATER DISTRICT FOR A RATE )	2023-00220
ADJUSTMENT PURSUANT TO 807 KAR 5:076 )	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of August 21, 2023, as amended by orders entered October 6, 2023, and December 11, 2023, the attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's August 21, 2023 and December 11, 2023 Orders, East Casey County Water District (East Casey District) is required to file written comments, if any, regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs East Casey District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.

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<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).



Linda C. Bridwell, PE  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED DEC 21 2023

cc: Parties of Record

COMMONWEALTH OF KENTUCKY  
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COMMISSION STAFF'S REPORT  
ON EAST CASEY COUNTY WATER DISTRICT

East Casey County Water District (East Casey District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 5,088 residential customers, 97 commercial customers, and 1 public authority that reside in East Casey County, Kentucky.<sup>1</sup>

On July 24, 2023,<sup>2</sup> East Casey District filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,<sup>3</sup> East Casey District used the calendar year ended December 31, 2022, as the basis for its application. The application

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<sup>1</sup> *Annual Report of East Casey District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 49.

<sup>2</sup> East Casey District tendered its application on June 30, 2023. By letter dated July 13, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on July 24, 2023.

<sup>3</sup> The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

was filed pursuant to the Commission's Order in Case No. 2022-00228,<sup>4</sup> which required East Casey District to file an application for an adjustment of its base rates by June 30, 2023. East Casey District has no prior alternative rate application filing or general rate cases. East Casey District has only adjusted its rates pursuant to purchased water adjustments, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated August 21, 2023. Commission Staff's First Request for Information (Staff's First Request) was issued as an Appendix to the procedural schedule issued on August 21, 2023, with a response due date of September 19, 2023. East Casey District filed a request for extension to submit their response to Staff's First Request, which was granted by an Order dated October 6, 2023, with a response due date of October 3, 2023. East Casey District filed its response on October 5, 2023. Commission Staff's Second Request for Information (Staff's Second Request) was issued on October 17, 2023, with a response due date of October 31, 2023. East Casey District filed its response to Staff's Second Request on October 31, 2023, with supplemental material being filed on November 9, 2023.

### UNACCOUNTED-FOR WATER LOSS

Commission Staff notes that East Casey District reported water loss of 33.8816 percent<sup>5</sup> in its 2022 Annual Report. Commission regulation 807 KAR 5:066, Section 6(3),

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<sup>4</sup> Case No. 2022-00228, *Electronic Investigation of East Casey County Water District and its Officers, Kevin Atwood, Lily Sandusky, Ricky Carman, Tracy Gossage, John McQuery, and its Manager, Andy Greynolds, to Comply with a Commission Order, KRS 278.990* (Ky PSC Dec. 8, 2022).

<sup>5</sup> 2022 Annual Report at 57.

states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2022 total annual cost of water loss to East Casey District is \$387,581, while the annual cost of water loss in excess of 15 percent is \$215,992. The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission views excessive water loss as a potential warning sign of the financial health and operational well-being of water utilities.<sup>6</sup>

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,041,393	\$ 102,535	\$ 1,143,928
Water Loss Percent	33.8816%	33.8816%	
Total Water Loss	\$ 352,841	\$ 34,740	\$ 387,581

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,041,393	\$ 102,535	\$ 1,143,928
Water Loss in Excess of 15%	18.8816%	18.8816%	
Disallowed Water Loss	\$ 196,632	\$ 19,360	\$ 215,992

### DISCUSSION

Using its pro forma test-year operations, East Casey District determined that a base rate revenue increase of \$109,140, or 5.18 percent, was necessary to achieve the revenue requirement as shown in the table below.<sup>7</sup>

<sup>6</sup> Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (filed Mar. 12, 2019), Order .

<sup>7</sup> Application, Attachment 6, Revenue Requirement Calculation – Debt Coverage Method.

Pro Forma Operating Expenses	\$ 2,029,607
Plus: Average Annual Principal and Interest Payments	263,174
Additional Working Capital	52,635
	2,345,416
Overall Revenue Requirement	2,345,416
Less: Other Operating Revenue ( )	(64,775)
Grant Income ( )	(53,801)
Interest Income ( )	(11,288)
	2,215,552
Revenue Required from Rates	2,215,552
Less: Pro Forma Present Rate Service Revenues	(2,106,412)
	\$ 109,140
Required Revenue Increase	\$ 109,140
Percentage Increase	5.18%

To determine the reasonableness of the rates requested by East Casey District, Commission Staff performed a limited review of East Casey District’s test-year operations. The scope of Commission Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable<sup>8</sup> changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff’s recommendations are summarized in this report. Noah Abner and Jeff Abshire reviewed the calculation of East Casey District’s Overall Revenue

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<sup>8</sup> Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes.” See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

Requirement, and Eddie Beavers reviewed East Casey District's reported revenues and rate design.

### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff calculated East Casey District's required revenue from water sales to be \$2,510,789 to meet the Overall Revenue Requirement of \$2,576,274. A potential revenue decrease of \$565,629, or 18.39 percent, to pro forma present rate revenues could be justified to meet the Overall Revenue Requirement.

2. Water Loss Reduction Surcharge. In its application, East Casey District did not propose a Water Loss Surcharge. Based on East Casey District's water loss history for 2018 through 2022,<sup>9</sup> Commission Staff recommends a Water Loss Surcharge be implemented to aid East Casey District in its water loss mitigation efforts. The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss.<sup>10</sup> Recognizing prior Commission precedent to allow the use of surcharges to assist utilities in obtaining the proper funding needed to address water loss, Commission Staff calculated a Water Loss Surcharge using

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<sup>9</sup> *Annual Reports of East Casey District to the Public Service Commission for the Calendar Years Ended December 31, 2018, 2019, 2020, 2021, and 2022.*

<sup>10</sup> See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges*, (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2010); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 11–13.

information from East Casey District’s 2022 Annual Report and the table below. Commission Staff recommends water loss reduction surcharge of \$3.47 per month per customer for 48 months or upon billing of \$863,780 for the life of the surcharge.

Disallowed Water Loss	\$	215,992
Months		12
Customers		5,186
		5,186
Surcharge Per Customer Per Month	\$	3.47
Surcharge Months		48
Customers		5,186
		5,186
Grand Total Surcharge	\$	863,780

In keeping with Commission practice, Commission Staff recommends that the Commission establish a separate proceeding to monitor the surcharge, place strict controls over the use of the funds that will be collected from the surcharge, and require East Casey District to develop a long-term plan to combat water loss within four months of the final Order in this proceeding. Commission Staff does not consider the revenue generated from base rates in the amount above the justified revenue requirement to be adequate for the specific purpose that is established and monitored under the proposed separate proceeding.

3. Monthly Water Service Rates. East Casey District proposed to increase its monthly retail and wholesale water service rates by approximately 5.18 percent across the board. East Casey District has not performed a cost of service study (COSS). East Casey District stated that it did not complete a COSS at this time as there have been no material changes in the water system.<sup>11</sup>

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<sup>11</sup> East Casey District’s Response to Staff’s First Request, Item 19.



The Commission has previously found that a revenue increase or decrease as appropriate, allocated evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.<sup>12</sup> Commission Staff did not propose a modification to base rates as further described below.

East Casey District's last structural rate increase was approximately 32 percent and became effective October 28, 2022, in the final Order issued by the Commission in Case No. 2022-00316.<sup>13</sup> Pursuant to KRS 278.023, the rates in that case were directed by the loan agreement between East Casey District and the United States Department of Agriculture Rural Development (RD).

The base rates, which are set forth in Appendix B to this Commission Staff's Report reflect the rates in the current tariff, effective September 18, 2023, that is on file with the Commission.<sup>14</sup> These rates reflect the rates prescribed by RD as described above and a purchased water adjustment that was approved by the Commission on September 15, 2023.<sup>15</sup> The rates for an average residential customer's monthly water bill will increase from \$33.24<sup>16</sup> to \$36.71, or 10.44 percent inclusive of the proposed \$3.47 per month

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<sup>12</sup> Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

<sup>13</sup> Case No. 2022-00316, *Electronic Application of East Casey County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving an Increase in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Oct. 28, 2022).

<sup>14</sup> PSC KY NO. 1, Sheet No. 4 (issued Aug. 18, 2023), effective Sept. 18, 2023.

<sup>15</sup> Case No. 2023-00266, *Electric Purchased Water Adjustment Filing of East Casey County Water District* (Ky. PSC Sept. 15, 2023).

<sup>16</sup> The typical residential customer uses approximately 3,000 gallons per month. Application, Attachment 1.

water loss surcharge. At a minimum, East Casey District must charge the rates specified by the RD loan agreement.<sup>17</sup> Commission Staff did not propose a reduction in rates to reflect its calculated revenue requirement for this reason.

4. Nonrecurring Charges. Following the Commission's recent decisions,<sup>18</sup> Commission Staff reviewed East Casey District's Nonrecurring Charges. The Commission has recently found that because district personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated to avoid the potential for double recovery of the same expense. Commission Staff reviewed the cost justification information provided by East Casey District and adjusted these charges by removing Field Labor Costs of approximately \$13.00 per hour and Office/Clerical Labor Costs of approximately \$14.00 per hour from those charges which occur during normal business hours.<sup>19</sup>

The breakdown of cost for each nonrecurring charge and any Commission Staff adjustment can be found in Appendix A of this Commission Staff's Report. These adjustments result in the following revised nonrecurring charges.

Connection/Turn On Charge	\$10.00
Customer Req Turn Off Charge	\$10.00
Field Collection Charge	\$10.00

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<sup>17</sup> Application, Exhibit B, RD Letter of Conditions and Form 1940-1 at 20.

<sup>18</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

<sup>19</sup> East Casey District's Response to Staff's First Request, Item 5.

Meter Reread Charge	\$10.00
Meter Resetting Charge	\$10.00
Returned Check Charge	\$0.00
Reconnect Charge	\$10.00
Service Line Inspection Charge	\$10.00

### PRO FORMA OPERATING STATEMENT

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

	Test Year	East Casey District Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
<b>Operating Revenues</b>						
Sales of Water	\$ 2,106,412		880,426	880,426	(A)	
			89,580	89,580	(A)	3,076,418
Late Payment Charges	48,691			0	(B)	48,691
Other Water Revenues	16,084		(10,578)	(10,578)	(C)	5,506
<b>Total Operating Revenues</b>	<b>2,171,187</b>	<b>0</b>	<b>959,428</b>	<b>959,428</b>		<b>3,130,615</b>
<b>Operating Expenses</b>						
<b>Operation and Maintenance Expenses</b>						
Salaries and Wages - Employees	247,878		47,262	47,262	(D)	295,140
Employee Benefits - Medical / Dental	154,720		(58,115)	(58,115)	(E)	
			11,365	11,365	(E1)	
		(18,538)	(3,966)	(22,504)	(E2)	85,466
Employee Benefits - Retirement (CERS)			58,115	58,115	(E)	
			8,492	8,492	(F1)	
			2,279	2,279	(F2)	68,886
Purchased Water	985,351		56,042	56,042	(G)	
		(186,050)	(10,582)	(196,632)	(G)	844,761
Purchased Power for Pumping	119,115		(16,580)	(16,580)	(H)	
		(22,491)	3,131	(19,360)	(H)	83,175
Materials and Supplies	172,945		(43,144)	(43,144)	(I)	129,801
Contractual Services	109,222			0		109,222
Other Utilities	0		16,580	16,580	(G)	16,580
Office Expenses	0		43,144	43,144	(I)	43,144
Transportation Expense	34,912			0		34,912
Insurance	31,144			0		31,144
Regulatory Commission Expense	667			0		667
Miscellaneous Expense	55,691			0		55,691
<b>Total Operation and Maintenance Expenses</b>	<b>1,911,645</b>	<b>(227,079)</b>	<b>114,023</b>	<b>(113,056)</b>		<b>1,798,589</b>
Taxes Other Than Income - FICA	22,839		3,699	3,699	(J)	26,538
Depreciation	322,201		66,015	66,015	(K)	388,216
<b>Total Operating Expenses</b>	<b>2,256,685</b>	<b>(227,079)</b>	<b>183,737</b>	<b>(43,342)</b>		<b>2,213,343</b>
Net Operating Income	(85,498)	227,079	775,691	1,002,770		917,272
Interest Income			11,288	11,288		11,288
<b>Income Available to Service Debt</b>	<b>\$ (85,498)</b>	<b>\$ 227,079</b>	<b>\$ 786,979</b>	<b>\$ 1,014,058</b>		<b>\$ 928,560</b>

(A) Billing Analysis. East Casey District did not propose any adjustments to its test-year water sales revenues of \$2,106,412. Commission Staff reviewed the billing analysis and determined that two adjustments should be made. First, water sales revenue required an increase of \$880,426 due to an increase in rates of between 31 and 32 percent, effective October 28, 2022, as required by the RD pursuant to Case No. 2022-00316.<sup>20</sup> Second, a Purchased Water Adjustment for water sold by East Casey District on or after September 18, 2023, results in an increase of \$89,580 to test-year water sales revenues of \$89,580.<sup>21</sup> Commission Staff recommends that the Commission approve these adjustments.

(B) Late Payment Charges. In its application, East Casey District did not report Late Payment Charges. In response to Staff's First Request, East Casey District provided that the charges were misclassified as Other Water Revenues and provided a listing of each month's Late Payment Charges. Commission Staff confirmed this amount in the test-year general ledger and agrees with East Casey District's amount.<sup>22</sup> Commission Staff relabeled \$48,691 from Other Water Revenues to Late Payment Charges. Commission Staff agrees with the amount and did not propose an adjustment.

(C) Other Water Revenues. In its application, East Casey District reported Rents from Water Property of \$16,084. In its response to Staff's First Request, East

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<sup>20</sup> Case No. 2022-00316, *Electronic Application of East Casey County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving an Increase in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Oct. 28, 2022).

<sup>21</sup> Case No. 2023-00266, *Electronic Purchased Water Adjustment Filing of East Casey County Water District* (Ky. PSC Sept. 15, 2023).

<sup>22</sup> East Casey District's Response to Staff's First Request, Item 13, and East Casey District's Response to Staff's First Request Item 1(a) [https://psc.ky.gov/pscecf/2023-00220/dpofoster%40glcap.org/10052023050747/ECCWD\\_RF11\\_ResponseWorksheet.xlsx](https://psc.ky.gov/pscecf/2023-00220/dpofoster%40glcap.org/10052023050747/ECCWD_RF11_ResponseWorksheet.xlsx).

Casey District explained that the amount reported was mislabeled. Commission Staff reviewed the responses to the information requests and decreased Miscellaneous Service Revenues by \$10,578 for field labor costs incurred during normal business hours that have been removed from nonrecurring charges as shown below. The proposed adjustments made by Commission Staff result in a pro forma Other Water Revenues amount of \$5,506. Commission Staff recommends that the Commission approve the adjustment.

Description	Num.	Current Rate	Total	Revised Rate	Adjustment	Pro Forma
Connection/Turn On Charge	379	\$32.00	\$ 12,128	\$10.00	(\$8,338)	\$ 3,790
Customer Req Turn Off Charge	0	\$34.00	0	\$10.00	0	0
Field Collection Charge	0	\$0.00	0	\$10.00	0	0
Meter Reread Charge	0	\$32.00	0	\$10.00	0	0
Meter Resetting Charge	0	\$32.00	0	\$10.00	0	0
Returned Check Charge	20	\$22.00	440	\$0.00	(440)	0
Reconnect Charge	45	\$50.00	2,250	\$10.00	(1,800)	450
Service Line Inspection Charge	0	\$0.00	0	\$10.00	0	0
Total Non-Recurring Charges			<u>\$ 14,818</u>		<u>(\$10,578)</u>	\$ 4,240
Other Miscellaneous Income						1,266
Total Other Water Revenues						<u>\$ 5,506</u>

(D) Salary and Wages - Employee. In its application, East Casey District did not propose an adjustment to Salary and Wage – Employee expense.<sup>23</sup> After reviewing East Casey District’s wages for 2022 and 2023 year to date, Commission Staff calculated a \$47,262 increase in Salary and Wages – Employee expense to reflect the current wage rates<sup>24</sup> and normalized hours of 2,080, due to turnover during the year, for employees.<sup>25</sup> Commission Staff included the adjustment to Salary and Wages – Employee expense in

<sup>23</sup> Application, Attachment 5, Schedule of Adjusted Operations.

<sup>24</sup> East Casey District’s Response to Staff’s First Request, Item 6, ECCWD\_4.pdf.

<sup>25</sup> East Casey District’s Response to Staff’s First Request, Item 1c, ECCWD\_RFI1\_ResponseWorksheet.xlsx.

pro forma operating expenses. Commission Staff recommends accepting the adjustment because it reflects East Casey District’s current staffing and wage rates.

Commission Staff Calculated Salaries and Wages	\$	295,140
Test Year Salaries & Wages ( )		(247,878)
Adjustment	\$	<u>47,262</u>

(E) Employee Benefits – Medical / Dental. East Casey District reported employee benefits cost of \$154,720, which includes medical insurance, dental insurance, and retirement benefits under the County Employees Retirement System (CERS). The accounting and employer/employee contribution methodology differs significantly for the medical and dental benefits compared to CERS. Commission Staff reclassified \$58,115 in CERS test-year cost to Employee Benefits – Retirement (CERS) to facilitate explanation of the respective benefits.

East Casey District pays 100 percent of its employee health and dental insurance premiums. In its application, East Casey District proposed a \$18,538 decrease to Employee Medical and Dental Benefits expense to reflect the level of employer-funded premiums to be consistent with the Bureau of Labor Statistics (BLS) average for an employer's share of health and dental insurance premiums.<sup>26</sup> East Casey District did not propose pro forma adjustments for changes in insurance premiums or staffing.<sup>27</sup> However, Commission Staff identified two adjustments. First, Commission Staff calculated an increase in premium costs of \$11,365 (E1 in table below) based on updated

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<sup>26</sup> Application, Attachment 5, Schedule of Adjusted Operations, Adjustment A.

<sup>27</sup> East Casey District’s Response to Staff’s First Request, Item 10a, ECCWD\_10a\_Proforma\_Adjustments.xlsx.

health insurance premium information for 2023<sup>28</sup> and current employee count.<sup>29</sup> Second, Commission Staff recalculated the BLS adjustment resulting in a decrease of \$22,504 (E2 in table below) as shown below. Commission Staff recommends the adjustment by to reflect the BLS national average benefit contribution rate consistent with Commission precedent and the current insurance premiums for East Casey District.

Benefit Description (District Pays 100%, All Single Coverage)	Unit Cost Per Month	# of Covered Employees	Months	Total	BLS Employee Contribution %	BLS Adjustment
Medical	\$ 874.96	10	12	\$ 104,995	-20.0%	(20,999)
Dental	\$ 20.90	10	12	2,508	-60.0%	(1,505)
Total				\$ 107,503	(E2)	\$ (22,504)
Other Fees				467		0
Test Year ( )				(96,605)		18,538
Cost Adjustment (inflation and turnover) (E1), BLS Adjustment (E2)			(E1)	\$ 11,365	(E2)	\$ (3,966)

(F) Employee Benefits – Retirement (CERS). In its application, East Casey District did not propose an adjustment to retirement benefits. Commission Staff calculated an adjustment to retirement benefits using the table below and the current CERS contribution rate of 23.34 percent.<sup>30</sup> Commission Staff notes that East Casey did not make Governmental Accounting Standards Board (GASB) adjustment 68 and 74<sup>31</sup> to its test-year CERS contributions. Combining the adjustment for the current CERS contribution rate and GASB adjustment 68 and 74 results in a net increase of a \$8,492

<sup>28</sup> East Casey District’s Response to Staff’s First Request, Item 1d, ECCWD\_1.d.pdf.

<sup>29</sup> East Casey District’s Response to Staff’s First Request, Item 3, ECCWD\_RFI1\_ResponseWorksheet.xlsx.

<sup>30</sup> Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority. (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

<sup>31</sup>Kentucky Public Pensions Authority, GASB Overview. (<https://www.kyret.ky.gov/Employers/GASB/Pages/default.aspx>).

(F1 below) increase to Employee Benefits – Retirement (CERS) expense. The adjustment for changes in wages and the contribution rate results in a net increase of \$2,279 (F2 below). Commission Staff recommends the adjustment to reflect GASB standards and the current CERS contribution rate.

Description	Amount
Wages	\$ 295,140
Contribution Rate	23.34%
Calculated CERS Contribution	<u>\$ 68,886</u>
Test Year	58,115
GASB 68 and 74 Adjustment	8,492 (F1)
Net Changes in Wages and Contribution Rate	2,279 (F2)
Pro Forma	<u>\$ 68,886</u>

(G) Purchased Water. In its application, East Casey District did not propose an adjustment to Purchased Water expense. Commission Staff calculated a net \$56,042 increase to correct the pro forma cost-of-water purchases inclusive of a purchased water rate adjustment that was approved during 2023.<sup>32</sup>

Description	Amount
Gallons	376,544,000
Current Purchase Rate	\$ 2.7657
Pro Forma Cost	<u>\$ 1,041,393</u>
Test Year Purchase Cost	985,351
Increase in Purchase Cost	<u>\$ 56,042</u>

<sup>32</sup> Case No. 2022-00354, *Electronic Purchased Water Adjustment Filing of East Casey County Water District* (Ky. PSC Sept. 15, 2023).



East Casey District reported water loss of 33.8816 percent in its 2022 Annual Report.<sup>33</sup> In its application, East Casey District proposed a decrease of \$186,050 to Purchased Water expense to account for the East Casey District's water loss in excess of 15 percent.<sup>34</sup> Commission Staff calculated a \$10,582 decrease to East Casey District's proposed adjustment to reflect the new pro forma Purchased Water expense Commission Staff calculated above. Commission Staff recommends the adjustment to reflect East Casey District's current purchased water rate and water loss expense in excess of 15 percent.

Disallowed Water Loss	Purchased Water	Purchased Power	Total
East Casey District	\$ 186,050	\$ 22,491	\$ 208,541
Commission Staff Calculated	(196,632)	(19,360)	(215,992)
Net	\$ (10,582)	\$ 3,131	\$ (7,451)

(H) Purchased Power. In its application, East Casey District proposed a decrease of \$22,491 to Purchased Power expense to reflect the maximum allowable water loss expense collected for ratemaking purposes of 15 percent.<sup>35</sup> Commission Staff reviewed East Casey District's calculation and notes that East Casey District included Office Utilities in its Purchased Power expense.<sup>36</sup> Commission Staff identified and reclassified \$16,580 representing telephone expense and office utilities to Office Utilities expense. Commission Staff then recalculated the allowable Purchased Power expense

<sup>33</sup> 2022 Annual Report at 57.

<sup>34</sup> Application, Attachment 5, Schedule of Adjusted Operations, Adjustment B.

<sup>35</sup> Application, Attachment 5, Schedule of Adjusted Operations, Adjustment B.

<sup>36</sup> East Casey District's Response to Staff's First Request, Item 1a, ECCWD\_RFI1\_ResponseWorksheet.xlsx.

as shown in the table above resulting in a \$3,131 increase. Commission Staff recommends that the reclassification and adjustment be accepted to reflect the the maximum allowable water loss expense collected for ratemaking purposes of 15 percent.

(I) Materials and Supplies. In its application, East Casey District did not propose an adjustment to Materials and Supplies expense. After review of East Casey District’s 2022 general ledger Commission Staff identified and reclassified \$43,144 of test year Materials and Supplies expense to Office Expenses.<sup>37</sup> These items included water bills, postage and other in office expenses. Commission Staff recommends that the reclassification be accepted to more accurately display East Casey District’s expenses.

(J) Taxes Other Than Income. In its application, East Casey District did not propose an adjustment to Taxes Other Than Income.<sup>38</sup> Commission Staff reviewed East Casey District’s 2022 test-year general ledger<sup>39</sup> and notes that East Casey assessed \$18,879 in test-year payroll taxes. Using the Commission Staff calculated pro forma wages from above and the table below, Commission Staff calculated an increase of \$3,699 to Taxes Other Than Income. Commission Staff recommends accepting the adjustment to reflect the correct Payroll Taxes based on current wages.

Pro Forma Salaries Wages	\$	295,140
FICA Contribution Percent		7.65%
Pro Forma Payroll Taxes	\$	22,578
Test Year Payroll Taxes ( )		(18,879)
Payroll Tax Adjustment	\$	<u>3,699</u>

<sup>37</sup> East Casey District’s Response to Staff’s First Request, Item 1a, ECCWD\_RFI1\_ResponseWorksheet.xlsx.

<sup>38</sup> Application, Attachment 5, Schedule of Adjusted Operations.

<sup>39</sup> East Casey District’s Response to Staff’s First Request, Item 1a, ECCWD\_RFI1\_ResponseWorksheet.xlsx.

(K) Depreciation. In its application, East Casey District did not propose an adjustment to its Depreciation expense. Commission Staff reviewed East Casey District's test-year depreciation and agrees that no adjustment to test-year depreciation is warranted. However, as previously explained, East Casey District was approved for a federally funded project and rates were adjusted effective October 28, 2022, as required by RD. East Casey District did not make pro forma adjustments to Depreciation expense for the project components included in Case No. 2022-00316, all of which were scheduled to be completed during 2023.<sup>40</sup> Because the rates required by RD have been implemented, it is appropriate to include the costs of asset acquisition (depreciation and debt service) in the pro forma revenue requirement calculation as well. Commission Staff calculated an increase in Depreciation expense of \$66,015 to reflect the project components included in Case No. 2022-00316.<sup>41</sup> Commission Staff recommends accepting the adjustment to reflect the added depreciation expense from East Casey District's federally funded project.

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<sup>40</sup> Case No. 2022-00316, *Electronic Application of East Casey County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving an Increase in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (filed Sept. 29, 2022), Application at 7 ("Project Description").

<sup>41</sup> Case No. 2022-00316, *Electronic Application of East Casey County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving an Increase in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (filed Sept. 29, 2022), Final\_Engineering\_Report\_-\_BM.pdf, Table 4 – Revised Project Budget at 3.

Description	Cost	Staff Life	Amounts
Applicant Submitted Depreciation			<u>\$ 322,201</u>
<i>Commission Staff Adjustments</i>			
2022-00316 Pump Station	\$ 1,125,470	40.00	\$ 28,137
2022-00316 200,000 gallon tank	\$ 650,333	50.00	13,007
2022-00316 1,000 AMR meters	\$ 257,197	20.00	12,860
2022-00316 Other Project Costs	\$ 480,456	40.00	12,011
Commission Staff Adjustment			<u>\$ 66,015</u>
Pro Forma			<u><u>\$ 388,216</u></u>

### OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;<sup>42</sup> (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense. The table below reflects East Casey District's and Commission Staff's calculated revenue requirement. As noted previously, RD's letter of conditions in Case No. 2022-00316 requires that rates of at least the amounts specified in its letter be charged by East Casey District. Commission Staff,

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<sup>42</sup> The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

therefore, is recommending the rates be held at the amounts specified in Case No. 2023-00266.

	East Casey District	Commission Staff
Pro Forma Operating Expenses	\$ 2,029,607	\$ 2,213,343
Plus: Average Annual Principal and Interest Payments	263,174	302,443
Additional Working Capital	52,635	60,489
Overall Revenue Requirement	2,345,416	2,576,274
Less: Other Operating Revenue ( )	(64,775)	(54,197)
Grant Income ( )	(53,801)	0
Interest Income ( )	(11,288)	(11,288)
Revenue Required from Rates	2,215,552	2,510,789
Less: Pro Forma Present Rate Service Revenues	(2,106,412)	(3,076,418)
Required Revenue Increase	\$ 109,140	\$ (565,629)
Percentage Increase	5.18%	-18.39%

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, East Casey District had two loans from the Kentucky Bond Corporation and the Kentucky Infrastructure Authority totaling \$2,706,514.<sup>43</sup> East Casey District requested to recover the average annual principal and interest on its indebtedness based on a three-year average. Commission Staff validated this information against East Casey District's audited financial statements for the year ended December 31, 2022.<sup>44</sup> Because the rates required by RD have been implemented, it is appropriate to include debt service in the pro forma revenue requirement calculation as well. Commission Staff calculated the additional debt service as shown in the table below based on information

<sup>43</sup> East Casey District Audited Financial Statements for the Year Ended December 31, 2022 (filed with the Commission Mar. 31, 2023), Note 4 Long-Term Debt.

<sup>44</sup> East Casey District Audited Financial Statements for the Year Ended December 31, 2022 (filed with the Commission Mar. 31, 2023), Note 4 Long-Term Debt.

provided in East Casey District’s application.<sup>45</sup> In the absence of a projected amortization for the loan, Commission Staff calculated a level payment amount for the term of the loan.

Loan Amount	\$ 1,202,000
Interest Rate	1.3750%
Term	40
Annual Debt Service	<u>\$ 39,269</u>
Additional Working Capital at 20%	<u>\$ 7,854</u>

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district’s lenders that are above its annual average debt payments. East Casey District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual payments, or \$52,635. Commission Staff recalculated the working capital requirement based on the pro forma debt service adjustment described above resulting in an additional working capital adjustment of \$7,854 for a total of \$60,489.

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<sup>45</sup> Application, Exhibit B, RD Letter of Conditions and Form RD 1940-1 at 25.

## Signatures

/s/ Noah Abner

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

/s/ Jeff Abshire

Prepared by: Jeff Abshire  
Revenue Requirement Branch  
Division of Financial Analysis

/s/ William Coston for Eddie Beavers

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

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00220 DATED DEC 21 2023

*Miscellaneous Service Revenues*

Description	Num.	Current Rate	Total	Revised Rate	Adjustment	Pro Forma
Connection/Turn On Charge	379	\$32.00	\$12,128	\$10.00	(\$8,338)	\$3,790
Customer Req Turn Off Charge	0	\$34.00	0	\$10.00	0	0
Field Collection Charge	0	\$0.00	0	\$10.00	0	0
Meter Reread Charge	0	\$32.00	0	\$10.00	0	0
Meter Resetting Charge	0	\$32.00	0	\$10.00	0	0
Returned Check Charge	20	\$22.00	440	\$0.00	(440)	0
Reconnect Charge	45	\$50.00	2,250	\$10.00	(1,800)	450
Service Line Inspection Charge	0	0	\$0	\$10.00	0	0
<b>Total</b>			<u>\$14,818</u>		<u>(\$10,578)</u>	<u>\$4,240</u>

**Nonrecurring Charges Adjustments**

Connection/Turn-On, Field Collection, Meter Reread, Meter Resetting Charge

	East Casey Revised Charge	Staff Revised Charge
Field Labor at \$11.00 for 1.0 hour	\$11.00	\$0.00
Supplies	0.00	0.00
Office Labor at \$11.00 for 1.0 hours	11.00	0.00
Transportation Expense	10.00	10.00
Total Nonrecurring Charge Expense	\$32.00	\$10.00
Current Rate	\$32.00	

Connection/Turn-Off Charge

	East Casey Revised Charge	Staff Revised Charge
Field Labor Overtime at \$12.00 for 1.0 hour	\$12.00	\$0.00
Supplies 0.00 0.00	0.00	0.00



Office Labor at \$12.00 for 1.0 hours	12.00	0.00
Transportation Expense	10.00	10.00
Total Nonrecurring Charge Expense	\$32.00	\$10.00
Current Rate	\$34.00	

Reconnection

	East Casey Revised Charge	Staff Revised Charge
Field Labor Overtime at \$20.00 for 1.0 hour	\$20.00	\$0.00
Supplies	0.00	0.00
Office Labor at \$20.00 for 1.00 hours	20.00	0.00
Transportation Expense	10.00	10.00
Total Nonrecurring Charge Expense	\$50.00	\$10.00
Current Rate	\$50.00	

Returned Check Charge

	East Casey Revised Charge	Staff Revised Charge
Field Labor Overtime at \$0.00 for 1.0 hour	\$0.00	\$0.00
Supplies	0.00	0.00
Office Labor at \$22.00 for 1.0 hours	22.00	0.00
Transportation Expense	0.00	0.00
Total Nonrecurring Charge Expense	\$22.00	0.00
Current Rate	\$22.00	

Service Inspection Charge

	East Casey Revised Charge	Staff Revised Charge
Field Labor at \$15.00 for 1.0 hour	\$15.00	\$0.00
Supplies	0.00	0.00
Office Labor at \$15.00 for 0.25 hours	15.00	0.00
Transportation Expense	10.00	10.00
Total Nonrecurring Charge Expense	\$40.00	\$10.00
Current Rate	\$40.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00220 DATED DEC 21 2023

The following rates and charges are prescribed for the customers in the area served by East Casey County Water District. 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

First	2,000 Gallons	\$23.24	Minimum Bill
Next	3,000 Gallons	0.01004	Per Gallon
Next	5,000 Gallons	0.00965	Per Gallon
Next	5,000 Gallons	0.00925	Per Gallon
Next	5,000 Gallons	0.00885	Per Gallon
Over	20,000 Gallons	0.00806	Per Gallon

Wholesale Rates \$0.00312 Per Gallon

Water Loss Surcharge Rate \$3.47 Per meter

To be collected for 48 months or until \$863,780 is billed.

Nonrecurring Charges

Connection/Turn On Charge	\$10.00
Customer Req Turn Off Charge	\$10.00
Field Collection Charge	\$10.00
Meter Reread Charge	\$10.00
Meter Resetting Charge	\$10.00
Returned Check Charge	\$0.00
Reconnect Charge	\$10.00
Service Line Inspection Charge	\$10.00

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