

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)	

ORDER

On July 24, 2023, East Casey County Water District (East Casey District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076.¹

In its application, East Casey District requested rates that would increase its annual water sale revenues by \$109,140, or a 5.18 percent increase to the pro forma present rate water sales revenues.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order issued August 21, 2023. Commission Staff's First Request for Information (Staff's First Request) was issued as Appendix B to the August 21, 2023 Order, with a response due date of September 19, 2023. East Casey District filed a request for a two week extension to submit its response to Staff's First Request, which was granted by Order issued October 6, 2023.² East Casey District filed its response to Staff's First Request on October 5, 2023. Commission Staff's Second Request for

¹ 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 as of July 24, 2023.

² The Order dated Oct. 6, 2023, also amended the procedural schedule issued on Aug. 21, 2023, to adjust for this extension.

Information (Staff's Second Request) was issued on October 17, 2023, and East Casey District filed its response to Staff's Second Request on October 31, 2023, with supplemental material being filed on November 9, 2023. The procedural schedule was amended again by Order dated December 11, 2023, to extend the time for Commission Staff's Report to be filed.³

Commission Staff's Report was filed on December 21, 2023, summarizing its findings and recommendations regarding East Casey District's requested rate adjustment. In Commission Staff's Report, Commission Staff found that, to meet the Overall Revenue Requirement of \$2,576,274, East Casey District required revenue from water sales of \$2,510,789.⁴ Consequently, Commission Staff found that a potential revenue decrease of \$565,629, or 18.39 percent to pro forma present rate revenues would be appropriate to meet the Overall Revenue Requirement.⁵ Additionally, Commission Staff's Report proposed a water loss surcharge of \$3.47 per month per customer for 48 months or upon billing of \$863,780 for the life of the surcharge.⁶

On January 4, 2024, East Casey District filed its response to Commission Staff's Report. In its response, East Casey District disagreed with Commission Staff's recommendation of a Water Loss Surcharge to aid in water loss mitigation efforts.⁷ Additionally, East Casey District agreed with Commission Staff's removal of labor

³ Order (Ky. PSC Dec. 12, 2023) at 2.

⁴ Commission Staff's Report at 5.

⁵ Commission Staff's Report at 5.

⁶ Commission Staff's Report at 5.

⁷ East Casey District's Response to Commission Staff's Report (filed Jan. 4, 2024).

expenses from certain nonrecurring charges noting; however, East Casey District expressly reserved the right to contest a similar finding or recommendation in a future rate proceeding.⁸ Lastly, East Casey District concurred with the findings presented in the Commission Staff's Report regarding water rates and waived its right to request an informal conference or hearing in this case.⁹ The case now stands submitted for a decision by the Commission.

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 of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."¹⁰ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

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

⁸ East Casey District's Response to Commission Staff's Report.

⁹ East Casey District's Response to Commission Staff's Report.

¹⁰ *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).

approximately 5,088 residential customers, 97 commercial customers, and 1 public authority that reside in Casey County, Kentucky.¹¹

UNACCOUNTED-FOR WATER LOSS

The Commission places great emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages utilities to pursue reasonable actions to reduce unaccounted-for water loss.¹² The Commission views excessive water loss as a potential warning sign of the financial health and operational well-being of water utilities.¹³

Because utilities may only charge rates that are fair, just and reasonable, the Commission, pursuant to KRS 278.280(2), has prescribed in regulation 807 KAR 5:066, Section (6)3, that “for ratemaking purposes, a utility’s water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water consumed by a utility in its own operations.” The policy enacted by this regulation is “intended to serve as an incentive to promote efficient management.”¹⁴

Commission Staff’s Report noted that East Casey District’s test-year water loss was 33.8816 percent.¹⁵ The table below shows that the 2022 total annual cost of water

¹¹ *Annual Report of East Casey District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 49.

¹² Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (filed Mar. 12, 2019), Order.

¹³ Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (filed Mar. 12, 2019), Order at 1.

¹⁴ Case No. 1989-00075, *In the Matter of the Notice by Lake Village Water Association, Inc., of a Tariff Amendment Adjusting Rates and Imposing Construction Surcharge* (filed Jan. 29, 1990), Order at 5.

¹⁵ *Annual Report of East Casey District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 57.

loss to East Casey District is \$387,581, while the annual cost of water loss in excess of 15 percent is \$215,992.

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	<u>\$ 352,841</u>	<u>\$ 34,740</u>	<u>\$ 387,581</u>

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	<u>\$ 196,632</u>	<u>\$ 19,360</u>	<u>\$ 215,992</u>

TEST PERIOD

The calendar year ended 2022 was used as the test year to determine the reasonableness of East Casey District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes East Casey District's pro forma income statement as follows:

	Commission Staff's Report		
	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 2,171,187	\$ 959,428	\$ 3,130,615
Operating Expenses	<u>2,256,685</u>	<u>(43,342)</u>	<u>2,213,343</u>
Net Utility Operating Income	(85,498)	1,002,770	917,272
Interest Income		<u>11,288</u>	<u>11,288</u>
Total Utility Operating Income	<u>\$ (85,498)</u>	<u>\$1,014,058</u>	<u>\$ 928,560</u>

REVIEW AND MODIFICATIONS TO
COMMISSION STAFF'S RECOMMENDATIONS

East Casey District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the findings and recommendations contained in the Commission Staff's Report with modifications. The following is Commission Staff's complete pro forma with modification:

	Test Year	East Casey District Proposed Adjustments	Commission Staff Adjustments	Staff Report Total Adjustments	Commission Staff Pro Forma Operations	Commission Pro Forma Adjustment	Commission Pro Forma Operations
Operating Revenues							
Sales of Water	\$2,106,412		880,426	880,426			
			89,580	89,580	3,076,418		3,076,418
Late Payment Charges	48,691			0	48,691		48,691
Other Water Revenues	16,084		(10,578)	(10,578)	5,506		5,506
Total Operating Revenues	2,171,187	0	959,428	959,428	3,130,615	-	3,130,615
Operating Expenses							
Operation and Maintenance Expenses							
Salaries and Wages - Employees	247,878		47,262	47,262	295,140		295,140
Employee Benefits - Medical / Dental	154,720		(58,115)	(58,115)			
			11,365	11,365			
		(18,538)	(3,966)	(22,504)	85,466	(1,050)	84,416
Employee Benefits - Retirement (CERS)			58,115	58,115			
			8,492	8,492			
			2,279	2,279	68,886		68,886
Purchased Water	985,351		56,042	56,042			
		(186,050)	(10,582)	(196,632)	844,761		844,761
Purchased Power for Pumping	119,115		(16,580)	(16,580)			
		(22,491)	3,131	(19,360)	83,175		83,175
Materials and Supplies	172,945		(43,144)	(43,144)	129,801		129,801
Contractual Services	109,222			0	109,222		109,222
Other Utilities	0		16,580	16,580	16,580		16,580
Office Expenses	0		43,144	43,144	43,144		43,144
Transportation Expense	34,912			0	34,912		34,912
Insurance	31,144			0	31,144		31,144
Regulatory Commission Expense	667			0	667		667
Miscellaneous Expense	55,691			0	55,691		55,691
Total Operation and Maintenance Expenses	1,911,645	(227,079)	114,023	(113,056)	1,798,589	(1,050)	1,797,539
Taxes Other Than Income - FICA	22,839		3,699	3,699	26,538		26,538
Depreciation	322,201		66,015	66,015	388,216		388,216
Total Operating Expenses	2,256,685	(227,079)	183,737	(43,342)	2,213,343	(1,050)	2,212,293
Net Operating Income	(85,498)	227,079	775,691	1,002,770	917,272		918,322
Interest Income			11,288	11,288	11,288		11,288
Income Available to Service Debt	\$ (85,498)	\$ 227,079	\$ 786,979	\$ 1,014,058	\$ 928,560	(1,050)	929,610

REVENUE REQUIREMENT

Billing Analysis. East Casey District did not propose an increase to its test-year revenues of \$2,106,412.¹⁶ East Casey District failed to adjust the test-year revenues to account for two increases in general service rates approved in Case No. 2022-00316¹⁷ and Case No. 2023-00266.¹⁸ In Commission Staff's Report, the test-year revenues were adjusted to account for these two rate increases.¹⁹

First, water sales revenue was increased by \$880,426, as required by the U.S. Department of Agriculture, Rural Development (RD), pursuant to Case No. 2022-00316.²⁰ Second, a Purchased Water Adjustment (PWA) effective on or after September 18, 2023, resulted in an increase of \$89,580 to test-year water sales revenues.²¹

The Commission finds Commission Staff's recommended adjustments for a total revenues of \$3,076,418 are reasonable because the evidence provided shows that the adjustment accurately reflects the increases' effect on the revenues of the test year.

¹⁶ Application, Attachment 5, Schedule of Adjusted Operations.

¹⁷Case 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).

¹⁸ Case No. 2023-00266, *Electronic Purchased Water Adjustment Filing of East Casey County Water District* (Ky. PSC Sep. 15, 2023).

¹⁹ Commission Staff's Report at 10.

²⁰ 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).

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

Late Payment Charges. 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.²² Commission Staff confirmed Late Payment Charges were for the test year general ledger.²³ Therefore, Commission Staff reclassified \$48,691 from Other Water Revenues to Late Payment Charges.²⁴

The Commission finds Commission Staff's recommended adjustment is reasonable because the adjustment is necessary to properly classify East Casey District's revenue and to conform to general accounting principles.

Other Water Revenues. In Commission Staff's Report, Commission Staff took notice that East Casey District reported Rents from Water Property of \$16,084.²⁵ In its response to Staff's First Request, East Casey District explained that the amount reported was mislabeled.²⁶ Commission Staff relabeled Rents from Water Property to Other Water Revenues.

Additionally, in Commission Staff's Report, Commission Staff reviewed the responses to the information requests and cost justification sheets and decreased Other Water Revenues by \$10,578 for field labor costs incurred during normal business hours

²² East Casey District's Response to Staff's First Request, Item 13, and East Casey District's Response to Staff's First Request, Item 1a, https://psc.ky.gov/pscecf/2023-00220/dpfoster%40glcap.org/10052023050747/ECCWD_RF11_ResponseWorksheet.xlsx.

²³ East Casey District's Response to Staff's First Request, Item 13, and East Casey District's Response to Staff's First Request, Item 1a https://psc.ky.gov/pscecf/2023-00220/dpfoster%40glcap.org/10052023050747/ECCWD_RF11_ResponseWorksheet.xlsx.

²⁴ Commission Staff's Report at 10.

²⁵ Application, Attachment 5, Schedule of Adjusted Operations.

²⁶ East Casey District's Response to Staff's First Request, Item 10, and East Casey District's Response to Staff's First Request, Item 1a, https://psc.ky.gov/pscecf/2023-00220/dpfoster%40glcap.org/10052023050747/ECCWD_RF11_ResponseWorksheet.xlsx.

that have been removed from nonrecurring charges as shown below.²⁷ The proposed adjustments made by Commission Staff result in a pro forma Other Water Revenues amount of \$5,506.

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>

The Commission finds that Commission Staff's removal of labor costs is reasonable because labor costs are already being recovered through salaries and wages in the base rates, and therefore should not be included in Other Water Revenues. This follows precedent of recent Commission decisions in other alternative rate filing proceedings.

Salary and Wages - Employees. In its application, East Casey District did not propose an adjustment to Salary and Wage – Employee expense.²⁸ After reviewing East Casey District's wages for 2022 and 2023 year to date, Commission Staff calculated a

²⁷ Commission Staff's Report at 11.

²⁸ Application, Attachment 5, Schedule of Adjusted Operations.

\$47,262 increase in Salary and Wages – Employee expense to reflect the current wage rates²⁹ and normalized hours of 2,080, due to turnover during the year, for employees.³⁰

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

The Commission finds Commission Staff’s adjustment reasonable because the change to Salaries and Wages – Employees reflects the current wages of East Casey District’s employees at 2,080 hours and therefore a known and measurable change to the test year.

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, as discussed below. Commission Staff reclassified \$58,115 in CERS test-year cost to Employee Benefits – Retirement (CERS) to facilitate explanation of the respective benefits.³¹

East Casey District pays 100 percent of its employee health and dental insurance premiums.³² 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

²⁹ East Casey District’s Response to Staff’s First Request, Item 6, ECCWD_4.pdf.

³⁰ East Casey District’s Response to Staff’s First Request, Item 1c, ECCWD_RFI1_ResponseWorksheet.xlsx.

³¹ Commission Staff’s Report at 12.

³² Application, Attachment 5, Schedule of Adjusted Operations, Reference A.

premiums to be consistent with the Bureau of Labor Statistics (BLS) average for an employer's share of health and dental insurance premiums.³³ East Casey District did not propose pro forma adjustments for changes in insurance premiums or staffing.³⁴ However, Commission Staff recommended two adjustments.³⁵ First, Commission Staff calculated an increase in premium costs of \$11,365 (E1 in table below) based on updated health insurance premium information for 2023³⁶ and current employee count.³⁷ Second, Commission Staff recalculated the BLS adjustment, with consideration to changes in insurance premiums and staffing, resulting in a decrease of \$22,504 (E2 in table below) as shown below.

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)

Upon review, the Commission discovered the following items that require modification to Commission Staff's recommended adjustments: Commission Staff reduced Employee Benefits – Medical/Dental by \$22,504 to reflect the reduction of single

³³ Application, Attachment 5, Schedule of Adjusted Operations, Adjustment A.

³⁴ East Casey District's Response to Staff's First Request, Item 10a, ECCWD_10a_Proforma_Adjustments.xlsx.

³⁵ Commission Staff's Report at 12.

³⁶ East Casey District's Response to Staff's First Request, Item 1d, ECCWD_1.d.pdf.

³⁷ East Casey District's Response to Staff's First Request, Item 3, ECCWD_RFI1_ResponseWorksheet.xlsx.

health insurance premiums by a Bureau of Labor Statistics (BLS) contribution rate of 20 percent. The Commission reduced the current contribution rate by 21 percent for single health coverage³⁸ resulting in a decrease of \$1,050 to the Revenue Requirement. The Commission finds that this correction to contribution rates is in conformity with Commission precedent of using the most current contribution rate for private industry workers according to the BLS and should be used in calculating East Casey District's Revenue Requirement.

However, the Commission finds that Commission Staff's recommendation is not reasonable, since Commission Staff used an incorrect BLS percentage by reducing single health coverage by 20 percent rather than reducing it by the current 2023 BLS contribution rate of 21 percent. Therefore, reducing the current contribution percentage by 21 percent, the Commission determined East Casey District's Employee Benefits – Medical / Dental should be decreased by \$23,554 rather than \$22,504, as shown in the table below.

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	-21.0%	(22,049)
Dental	\$ 20.90	10	12	2,508	-60.0%	(1,505)
Total				\$ 107,503	(E2)	\$ (23,554)
Other Fees				467		0
Test Year ()				(96,605)		18,538
Cost Adjustment (inflation and turnover) (E1), BLS Adjustment (E2 REVISED)			(E1)	\$ 11,365	(E2)	(5,016)
Staff Report Adjustment						(3,966)
Adjustment						\$ (1,050)

The adjustment results in a decrease to the Revenue Requirement of \$1,050, and is consistent with past Commission precedent regarding premiums paid for health

³⁸ Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ehs2.pdf>).

insurance. The Commission finds that this increase is based on a known and measurable change.

Employee Benefits – Retirement (CERS). In its application, East Casey District did not propose an adjustment to retirement benefits.³⁹ Commission Staff calculated an adjustment to retirement benefits using the table below and the current CERS contribution rate of 23.34 percent.⁴⁰ Commission Staff noted that East Casey did not make Governmental Accounting Standards Board (GASB) adjustment 68 and 74⁴¹ to its test-year CERS contributions.⁴² Combining the adjustment for the current CERS contribution rate and GASB adjustment 68 and 74 results in a net increase of a \$8,492 (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).

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>

³⁹ Application, Attachment 5, Schedule of Adjusted Operations.

⁴⁰ Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority. (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

⁴¹ Kentucky Public Pensions Authority, GASB Overview. (<https://www.kyret.ky.gov/Employers/GASB/Pages/default.aspx>).

⁴² Commission Staff's Report at 13.

The Commission finds Commission Staff’s adjustments reasonable because it reflects GASB standards and the current CERS contribution rate as a known and measurable change. The Commission therefore accepts the Commission staff recommended adjustments.

Purchased Water. In its application, East Casey District did not propose an adjustment to Purchased Water expense.⁴³ Commission Staff calculated a net \$56,042 increase⁴⁴ to correct the pro forma cost-of-water purchases inclusive of a purchased water rate adjustment that was approved during 2023.⁴⁵

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

East Casey District reported water loss of 33.8816 percent in its 2022 Annual Report.⁴⁶ 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.⁴⁷ Commission Staff calculated an additional \$10,582 decrease to East

⁴³ Application, Attachment 5, Schedule of Adjusted Operations.

⁴⁴ Commission Staff’s Report at 14.

⁴⁵ Case No. 2022-00354, *Electronic Purchased Water Adjustment Filing of East Casey County Water District* (Ky. PSC Sept. 15, 2023).

⁴⁶ 2022 Annual Report at 57.

⁴⁷ Application, Attachment 5, Schedule of Adjusted Operations, Adjustment B.

Casey District’s proposed adjustment to reflect the pro forma Purchased Water expense Commission Staff calculated above.

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)

The Commission finds Commission Staff’s adjustment reasonable because it reflects East Casey District’s current purchased water rate and water loss in excess of 15 percent and therefore accepts the adjustment. The Commission notes that, based on this adjustment, it is apparent that water loss is materially affecting East Casey District. The Commission recognizes that East Casey District has recently received funding for infrastructure improvement projects. The Commission anticipates that these projects will affect water loss and as discussed in more detail below, will require East Casey District to address its rate sufficiency.

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.⁴⁸ Commission Staff reviewed East Casey District’s calculation and found that East Casey District included Office Utilities in its Purchased Power expense.⁴⁹ Commission Staff identified and reclassified \$16,580 representing telephone expense and office utilities to Office Utilities expense.⁵⁰

⁴⁸ Application, Attachment 5, Schedule of Adjusted Operations, Adjustment B.

⁴⁹ East Casey District’s Response to Staff’s First Request, Item 1a, ECCWD_RFI1_ResponseWorksheet.xlsx.

⁵⁰ Commission Staff’s Report at 15.

Commission Staff then recalculated the allowable Purchased Power expense as shown in the table above resulting in a \$3,131 increase.

The Commission finds Commission Staff's adjustment and reclassification reasonable because it reflects the the maximum allowable water loss expense collected for ratemaking purposes of 15 percent, and therefore accepts the adjustment.

Materials and Supplies. In its application, East Casey District did not propose an adjustment to Materials and Supplies expense.⁵¹ 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.⁵² These items included water bills, postage, and other in office expenses.⁵³

The Commission finds Commission Staff's reclassification reasonable because it more accurately reflects East Casey District's expenses and therefore accepts the adjustment.

Taxes Other Than Income. In its application, East Casey District did not propose an adjustment to Taxes Other Than Income.⁵⁴ Commission Staff reviewed East Casey District's 2022 test-year general ledger⁵⁵ and noted that East Casey District paid \$18,879 in test-year payroll taxes.⁵⁶ Using the Commission Staff calculated pro forma wages from

⁵¹ Commission Staff's Report at 16.

⁵² East Casey District's Response to Staff's First Request, Item 1a, ECCWD_RFI1_ResponseWorksheet.xlsx.

⁵³ East Casey District's Response to Staff's First Request, Item 1a, ECCWD_RFI1_ResponseWorksheet.xlsx.

⁵⁴ Application, Attachment 5, Schedule of Adjusted Operations.

⁵⁵ East Casey District's Response to Staff's First Request, Item 1a, ECCWD_RFI1_ResponseWorksheet.xlsx.

⁵⁶ Commission Staff's Report at 16.

above and the table below, Commission Staff calculated an increase of \$3,699 to Taxes Other Than Income.

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>

The Commission finds Commission Staff’s adjustment reasonable because it reflects the correct Payroll Taxes based on current wages and therefore accepts the adjustment.

Depreciation. In its application, East Casey District did not propose an adjustment to its Depreciation expense.⁵⁷ Commission Staff reviewed East Casey District’s test-year depreciation and agreed that no adjustment to test-year depreciation was 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.⁵⁸ 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 2023.⁵⁹ Due to the rates required by RD having been implemented, it was appropriate to include the costs of asset acquisition (depreciation and debt service) in the pro forma revenue requirement calculation as well. Commission Staff calculated

⁵⁷ Application, Attachment 5, Schedule of Adjusted Operations.

⁵⁸ 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), final Order.

⁵⁹ Case No. 2022-00316, Application at 7 (“Project Description”).

an increase in Depreciation expense of \$66,015 to reflect the project components included in Case No. 2022-00316.⁶⁰

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>

The Commission finds Commission Staff’s adjustment reasonable because it reflects the added depreciation expense from East Casey District’s federally funded project, and therefore accepts the adjustment.

OVERALL REVENUE REQUIREMENTS

Commission Staff’s Report recommended using the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement.⁶¹ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) full recovery of depreciation expense, a non-cash item, and working capital; (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense and generally required in bond covenants. The Commission finds that use of the DSC methodology is reasonable considering East Casey District, in

⁶⁰ Case No. 2022-00316, , Final_Engineering_Report_-_BM.pdf, Table 4 – Revised Project Budget at 3.

⁶¹ Commission Staff’s Report at 18.

addition to its RD loan, has two loans from the Kentucky Bond Corporation and the Kentucky Infrastructure Authority (KIA) totaling \$2,706,514.⁶²

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 of Conditions be charged by East Casey District.⁶³ Despite the Commission's acceptance of Commission Staff's recommended pro forma adjustments contained in this Order and calculated revenue requirement shown in the table below, the Commission finds that East Casey District's rates be held at the amounts specified in Case No. 2023-00266,⁶⁴ as specified in Appendix B. Those rates allow the district to satisfy its debt obligations as well as recover the rate increase passed through in that application. The Commission further finds that a revenue sufficiency and unit cost per thousand gallons analysis be provided by June 30, 2025 and 2026 respectively, for the years ended December 31, 2024, and 2025, respectively.

⁶² 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.

⁶³ Case No. 2022-00316, Application, Exhibit B, RD Letter of Conditions and Form 1940-1 at 20.

⁶⁴ Case No. 2023-00266, *Electronic Purchased Water Adjustment Filing of East Casey County Water District*, (filed Aug. 17, 2023).

Pro Forma Operating Expenses	\$ 2,212,293
Plus: Average Annual Principal and Interest Payments	302,443
Additional Working Capital	60,489
	2,575,224
Overall Revenue Requirement	2,575,224
Less: Other Operating Revenue ()	(54,197)
Grant Income ()	0
Interest Income ()	(11,288)
	2,509,739
Revenue Required from Rates	2,509,739
Less: Pro Forma Present Rate Service Revenues	(3,076,418)
	(566,679)
Required Revenue Increase	\$ (566,679)
Percentage Increase	-18.42%

Water Loss Reduction Surcharge. In the Commission Staff's Report, Commission Staff stated that East Casey District did not request a Water Loss Surcharge.⁶⁵ Based on East Casey District's water loss history for 2018 through 2022, Commission Staff recommended that a Water Loss Surcharge be implemented to aid East Casey District in its water loss mitigation efforts.⁶⁶

While the Commission agrees that a Water Loss Surcharge is a reasonable means to recover the cost of water loss detection and repair efforts, it is not convinced that implementation of a surcharge is appropriate in this case given Commission Staff's calculation of a potential surplus in revenues from rates of \$565,629, or 18.396 percent. Therefore, the Commission finds that a Water Loss Surcharge should not be approved.

However, the Commission does find that it is appropriate to establish terms to monitor East Casey District's water loss and its efforts for long term reduction. Therefore, the Commission finds that within 120 days of services of this Order, East Casey District

⁶⁵ Commission Staff's Report at 5.

⁶⁶ Commission Staff's Report at 5.

shall file with the Commission, in post-case correspondence referencing this case number, a qualified infrastructure improvement plan (QIIP), including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss. Each year thereafter, for three years or until its next rate filing, East Casey District shall file into the case record, in post-case correspondence referencing this case number, a report detailing its progress toward the projects defined within the QIIP, at the same time as its yearly submission of its required annual report.

RATE DESIGN

East Casey District did not propose an adjustment to test year retail water service rates. As discussed above, East Casey District did not account for rate increases that occurred during the test year, which were the results of the RD project and the PWA increase that occurred during the pendency of this case. However, Commission Staff accounted for those adjustments in its calculated Overall Revenue Requirement.

East Casey District proposed to increase its monthly retail and wholesale water service rates by approximately 5.18 percent across the board.⁶⁷ East Casey District stated that it did not complete a cost of service study (COSS) at this time since there have been no material changes in its water system.⁶⁸

The Commission notes that, as a condition of East Casey District's RD loan, its rates can be set no lower than the rates specified in the loan's Letter of Conditions.⁶⁹

⁶⁷ Application, Attachment 6.

⁶⁸ East Casey District's Response to Staff's First Request, Item 14.

⁶⁹ Case No. 2022-00316, Application, Exhibit B, RD Letter of Conditions and Form 1940-1 at 20.

Therefore, Commission Staff did not propose a reduction in rates to reflect its calculated revenue requirement due to the condition of the RD loan as stated above. The Commission accepts and approves Commission Staff's recommendation. As the Commission is not authorizing a change in the revenue requirement, the Commission is not authorizing a change in the rate design other than in the Nonrecurring Charges as detailed below.

Nonrecurring Charges. The Commission agrees with the Commission Staff's Report, which is consistent with recent Commission decisions, that labor expenses paid for work during normal business hours should not be recovered through nonrecurring charges.⁷⁰ The Commission requires that charges be directly related to the actual cost incurred to provide the service. Therefore, the Commission finds that estimated labor costs incurred during normal business hours previously included in determining the amount of nonrecurring charges should be eliminated from the charges as proposed by Commission Staff. Rather, the Commission finds that the calculation of nonrecurring charges should be revised and only the marginal costs related to the service should be recovered through the nonrecurring charges for service provided during normal working hours. Commission Staff reviewed the cost justification information provided by East Casey District and adjusted these charges by removing Field Labor Costs of

⁷⁰ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and 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).

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.⁷¹

East Casey filed their response to Staff's Second Request and in this response was a cost justification sheet for a Service Line Inspection Charge. The Service Line Inspection Charge is not currently in the Tariff. By submitting the cost justification for a Service Line Inspection Charge, the Commission views this as a request by East Casey to establish this charge.⁷²

The breakdown of cost for each nonrecurring charge and any Commission Staff adjustment can be found in Appendix A of this Order. 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
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

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. Therefore,

⁷¹ East Casey District's Response to Staff's Second Request, Item 5.

⁷² East Casey District's Response to Staff's Second Request, Item 6.

East Casey District's rates shall be held at the amounts specified in Case No. 2023-00266.

The Commission finds East Casey District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 on or before June 1, 2027, unless its annual financial review indicates that a rate case is required to be filed sooner. In its next rate case filing, East Casey District will calculate its revenue requirement using either the DSC method as commonly accepted by the Commission or the operating ratio method. East Casey District will show that the revenue requirement method chosen will produce an adequate level of working capital. To ensure continued rate sufficiency over time, the Commission also recommends that East Casey District's board of commissioners formally review rate sufficiency on an annual basis and consider filing periodic rate cases with the Commission regularly every three to five years.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted as modified and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by East Casey District are denied.
3. The rates set forth in the Appendix B of this Order are approved for service rendered by East Casey District on or after the date of this Order.
4. The Nonrecurring Charges set forth in Appendix B of this Order are approved for service rendered by East Casey District on or after the date of this Order.
5. Within 20 days of the date of service of this Order, East Casey District 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. Within 120 days of the date of service of this Order, East Casey District shall file, in post-case correspondence referencing this case number, with the Commission a QIIP, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss.

7. East Casey District shall file annually, in post case correspondence referencing this case number, an update on the progress of the projects identified in its QIIP along with its annual reports, by August 30 of each year for the years 2024, 2025, and 2026, or until its next rate filing.

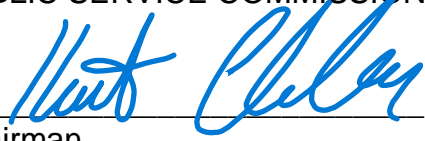
8. East Casey District shall provide a revenue sufficiency and unit per thousand gallons analysis by June 30, 2025 for the year ended December 31, 2024.

9. East Casey District shall provide a revenue sufficiency and unit per thousand gallons analysis by June 30, 2026 for the year ended December 31, 2025.

10. East Casey District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for a general rate adjustment pursuant to 807 KAR 5:076 on or before June 1, 2027, unless its annual financial review indicates that a rate case is required to be filed sooner.

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

PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ENTERED
MAY 21 2024 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00220 DATED MAY 21 2024

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
Total			<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

	Utility 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

	Utility Revised Charge	Staff Revised Charge
Field Labor 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

	Utility Revised Charge	Staff Revised Charge
Field Labor 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

	Utility Revised Charge	Staff Revised Charge
Field Labor 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

	Utility 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 AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00220 DATED MAY 21 2024

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

<u>Wholesale Rates</u>	\$0.00312	Per Gallon
------------------------	-----------	------------

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

*Andy Greynolds
General Manager
East Casey County Water District
P. O. Box 56
Liberty, KY 42539

*East Casey County Water District
690 S Wallace Wilkinson Blvd
P. O. Box 56
Liberty, KY 42539

*David P. Foster
Rural Community Assistance Partnership
101 Burch Court
Frankfort, KENTUCKY 40601

*Megan Pittman
East Casey County Water District
P. O. Box 56
Liberty, KY 42539