

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                                      |   |            |
|--------------------------------------|---|------------|
| ELECTRONIC APPLICATION OF BUTLER     | ) | CASE NO.   |
| COUNTY WATER SYSTEM, INC. FOR A RATE | ) | 2024-00061 |
| ADJUSTMENT PURSUANT 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 April 5, 2024, 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 April 5, 2024 Order, Butler County Water System, Inc. (Butler County Water) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Butler County Water to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED     AUG 28 2024    

cc: Parties of Record

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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).

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COMMISSION STAFF'S REPORT  
ON BUTLER COUNTY WATER SYSTEM, INC.

On March 14, 2024,<sup>1</sup> Butler County Water System, Inc. (Butler County Water) 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>2</sup> Butler County Water used the calendar year ended December 31, 2022, as the basis for its application.<sup>3</sup> The application was filed pursuant to the Commission's Order in Case No. 2021-00016 which required Butler County Water to file an application for an adjustment of its base rates by March 12, 2024.<sup>4</sup> On March 12, 2024 the Commission granted an extension of time requiring Butler County Water to file the application by March

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<sup>1</sup> Butler County Water tendered its application on March 13, 2024. By letter dated March 14, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on March 14, 2024.

<sup>2</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.

<sup>3</sup> Application (filed Mar. 14, 2024).

<sup>4</sup> Case No. 2021-00016, *Electronic Application of the Butler County Water System, Inc. to Issue Securities in the Approximate Principal Amount of \$840,000 for the Purpose of Refunding Certain Outstanding Obligations of the Association Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001*, (Ky. PSC Mar. 12, 2021), Order.

22, 2024.<sup>5</sup> Butler County Water's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2003-00486.<sup>6</sup> Since that matter, Butler County Water has only adjusted its rates in conjunction with an application for a Certificate of Public Convenience and Necessity and pursuant to KRS 278.023 financing cases. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated April 5, 2024. The procedural schedule was amended by Order entered July 5, 2024. Butler County Water responded to three information requests from Commission Staff.<sup>7</sup>

Butler County Water is a water utility organized pursuant to KRS Chapter 273 that owns and operates a distribution system. As of the test year period, Butler County Water provides retail water service to approximately 4,659 residential customers, 351 commercial customers, and 9 industrial customers that reside in Butler County, Kentucky.<sup>8</sup> Butler County Water participates in a joint Operations Agreement with Warren County Water District (Warren District), Warren County Sewer District (Warren Sewer District) and Simpson County Water District (Simpson District).<sup>9</sup>

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<sup>5</sup> Case No. 2021-00016, Mar. 12, 2024 Order.

<sup>6</sup> Case No. 2003-00486, *Application of Butler County Water System, Inc. for a General Rate Adjustment Pursuant to the Provisions of KRS 278.030 and 807 KAR 5:001* (Ky. PSC Jan. 12, 2005).

<sup>7</sup> Butler County Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed May. 3, 2024); Butler County Water's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed May. 31, 2024); Butler County Water's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed July 22, 2024).

<sup>8</sup> *Annual Report of Butler County Water to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

<sup>9</sup> Butler County Water's Response to Staff's First Request, Item 3.

## UNACCOUNTED-FOR WATER LOSS

In its application, Butler County Water reported water loss of 21.758 percent.<sup>10</sup> Commission Staff notes that in its 2022 Annual Report, Butler County Water reported a water loss of 21.8325 percent.<sup>11</sup> Commission Staff determined Butler County Water did not include other loss in its calculation of water loss. Therefore, Commission Staff agrees with the Annual Report's Water Loss amount and test year water loss should have been 21.8325 percent for the test year.<sup>12</sup> Commission regulation 807 KAR 5:066, Section 6(3), 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. Butler County Water currently produces its own water.<sup>13</sup> The table below shows that the 2022 total annual cost of water loss to Butler County Water is \$53,092, while the annual cost of water loss in excess of 15 percent is \$16,615, based on the 21.8325 percent water loss found in Butler County Water's 2022 Annual Report.<sup>14</sup>

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<sup>10</sup> Application, Exhibit 4, References, Adjustment G.

<sup>11</sup> 2022 Annual Report at 57.

<sup>12</sup> 2022 Annual Report, at 57.

<sup>13</sup> 2022 Annual Report at 57.

<sup>14</sup> 2022 Annual Report at 57.

| Description        | Purchased  |           |            |
|--------------------|------------|-----------|------------|
|                    | Power      | Chemicals | Total      |
| Pro Forma Expenses | \$ 154,304 | \$ 88,875 | \$ 243,179 |
| Water Loss Percent | 21.8325%   | 21.8325%  | 21.8325%   |
| Total Water Loss   | \$ 33,688  | \$ 19,404 | \$ 53,092  |

| Description                        | Purchased  |           |            |
|------------------------------------|------------|-----------|------------|
|                                    | Power      | Chemicals | Total      |
| Pro Forma Expenses                 | \$ 154,304 | \$ 88,875 | \$ 243,179 |
| Water Loss in Excess of 15 Percent | 6.8325%    | 6.8325%   | 6.8325%    |
| Excess Cost                        | \$ 10,543  | \$ 6,072  | \$ 16,615  |

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold.<sup>15</sup> Commission Staff strongly encourages Butler County Water to study its system to identify the sources of unaccounted-for water loss. This is the logical first step toward developing the comprehensive plan to improve Butler County Water’s infrastructure and eliminate the identified sources of excessive water loss.

### DISCUSSION

Using its pro forma test-year operations, Butler County Water determined that a base rate revenue increase of \$751,441, or 34.50 percent, was necessary to achieve the revenue requirement as shown in the table below.<sup>16</sup>

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<sup>15</sup> See generally, Commission final Orders for rate applications from 2017-present for language explaining the greater emphasis on encouraging efforts to reduce water loss and including the approximate amount of money the lost water represented to the utility. Case No. 2017-00176, *Electronic Application of Estill County Water District No. 1 for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 20, 2017), Order at 4.

<sup>16</sup> Application, Exhibit 4, Revenue Requirement Table.

| Description                                       | Butler County<br>Water |
|---|------------------------|
| Pro Forma Operating Expenses                      | \$ 2,559,281           |
| Plus: Avg. Annual Principal and Interest Payments | 368,377                |
| Plus: Additional Working Capital                  | 73,675                 |
| Total Revenue Requirement                         | <u>3,001,333</u>       |
| Less: Other Operating Revenue ( )                 | (60,846)               |
| Less: Interest and Dividend Income ( )            | (10,548)               |
| Less: Nonutility Income ( )                       | (348)                  |
| Revenue Required From Water Sales                 | <u>2,929,591</u>       |
| Less: Revenue from Sales at Present Rates ( )     | (2,178,150)            |
| Required Revenue Increase                         | <u>\$ 751,441</u>      |
| Percentage Increase                               | <u><u>34.50%</u></u>   |

Butler County Water proposed that rates be implemented in two phases. The rates requested by Butler County Water would increase the residential monthly bill of a typical residential customer with a 5/8 inch meter using 4,008 gallons per month by \$5.49 from \$32.22 to \$37.71 or approximately 17.05 percent for Phase 1.<sup>17</sup> The rates requested by Butler County Water would increase the residential monthly bill of a typical residential customer with a 5/8 inch meter using 4,008 gallons per month by \$5.65 from \$37.67 to \$43.32 or approximately 15.00 percent for Phase 2.<sup>18</sup>

To determine the reasonableness of the rates requested by Butler County Water, Commission Staff performed a limited review of Butler County Water'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

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<sup>17</sup> Application, Attachment 1.

<sup>18</sup> Application, Attachment 1.

and measurable<sup>19</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. William Foley reviewed the calculation of Butler County Water's Overall Revenue Requirement, and Manuel Jerez Tamayo reviewed Butler County Water's reported revenues and rate design.

### SUMMARY OF FINDINGS

1. Allocation Methodology – Joint Operations Agreement. Butler County Water participates in a joint Operations Agreement with Warren District, Warren Sewer District, and Simpson District.<sup>20</sup> Each Water System's Board establishes its own policies, regulations and rates. All water systems meet bi-annually. For all shared services, the joint utility committee annually reviews and approves cost allocations.

As the lead water system, Warren District provides: (1) Information Network hosting software; (2) Coordination and Supervision of operations, maintenance, and construction of the water systems; (3) Engineering, supervision of contractors and construction inspection services; (4) Accounting records and financial reporting; (5)

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<sup>19</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).

<sup>20</sup> Butler County Water's Response to Staff's First Request, Item 3.

Coordination, supervision, and maintenance of billing and meter reading services; (6) Equipment and material inventory necessary to maintain the systems; and (7) Customer service and the processing of applications for services.<sup>21</sup>

Each water system pays the actual cost monthly for labor, equipment, material, contractual services, and other expenses for services provided by any water system.

Actual Costs – Timecard Labor and Equipment. Warren District provides employees, equipment, and other services necessary to perform general system operations and business to each water system. Each participating system pays the actual cost for labor, equipment, material, contractual services, and other expenses for services provided by any other system.<sup>22</sup>

Direct Purchases. Each system purchases materials and services directly, without utilizing Warren District. In addition, each system separately purchases assets and funding for construction projects.<sup>23</sup>

Rates and Allocations. At the beginning of each year, the joint Utility Committee reviews and approves a Rates and Allocation Memo that outlines the following standard cost sharing allocations:

A. Allocation of administration wages and other shared expenses. This allocation is based upon prior year's total number of customers and each system's percentage of the total. During the test year, the allocation percentage for Butler County Water was 10.17 percent,<sup>24</sup> as shown in the following table.

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<sup>21</sup> Butler County Water's Response to Staff's First Request, Item 3.

<sup>22</sup> Butler County Water's Response to Staff's First Request, Item 3.

<sup>23</sup> Butler County Water's Response to Staff's First Request, Item 3.

<sup>24</sup> Butler County Water's Response to Staff's First Request, Item 3, Allocation Schedule.



| Test Year Allocation Percentages |                       |                               |
|----------------------------------|-----------------------|-------------------------------|
| Utility                          | 2021 Number Customers | Allocation of Shared Expenses |
| Warren District - Water          | 31,754                | 64.54%                        |
| Warren District - Sewer          | 8,880                 | 18.05%                        |
| Butler County Water              | 5,002                 | 10.17%                        |
| Simpson District                 | 3,563                 | 7.24%                         |
| Total                            | 49,199                | 100%                          |

B. Distribution within each water system of allocated administrative wages. Allocated administrative wages recorded to each water system are recorded to expense and capital based on the prior years' percentage breakdown of direct timecard wages. For 2022 administrative wages, the expense and capital breakdown was 59 percent and 41 percent.<sup>25</sup> The breakdown of the General Manager's wages was 30 percent expense and 70 percent capital.<sup>26</sup>

C. Employee Overhead Rate. The overhead rate is applied to wages worked and allows Warren District to recover employment costs such as taxes, medical insurance, retirement, employee leave, workman's compensation, and holiday pay. The rate is determined by dividing the estimated overhead costs by the projected total wages worked. For the year 2022, the initial overhead rate was 63.10 percent, and the final overhead rate was 64.6 percent.<sup>27</sup> The overhead reimbursement amount is charges to the water systems by multiplying employee wages worked by the overhead rate.<sup>28</sup>

<sup>25</sup> Butler County Water's Response to Staff's First Request, Item 3.

<sup>26</sup> Butler County Water's Response to Staff's First Request, Item 3.

<sup>27</sup> Butler County Water's Response to Staff's First Request, Item 3.

<sup>28</sup> Butler County Water's Response to Staff's First Request, Item 3.

2. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff determined that Butler County Water's required revenue from water sales is \$2,888,801 to meet the Total Revenue Requirement of \$2,956,834 and that a \$705,311 revenue increase, or 32.30 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

3. Monthly Water Service Rates. Based upon the Revenue requirement, Butler County Water proposed to increase all of its monthly retail and wholesale water service rates evenly across the board and requested that the rates be implemented over a two-year period.<sup>29</sup> Butler County Water stated that it did not complete a COSS at this time as there has been no material changes in the water system.<sup>30</sup> The Commission has previously found that the allocation of a revenue adjustment 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>31</sup> Finding no such evidence in this case, Commission Staff allocated the \$705,311 revenue increase following Butler County Water's proposed two-year phased in approach, and evenly across Butler County Water's monthly retail water service rates.

The rates set forth in Appendix B to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,888,801 Revenue Required from Rates, an

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<sup>29</sup> Application, Attachment 1, Customer Notice.

<sup>30</sup> Butler County Water's Response to Staff's First Request, Item 11a at 17.

<sup>31</sup> Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

approximate 32.30 percent increase. Phase 1 rates will increase a typical residential customer's monthly water bill, using 4,008 gallons per month, from \$32.22 to \$37.34 for an increase of \$5.12, or approximately 15.89 percent.<sup>32</sup> Phase 2 rates will increase a typical residential customer's monthly water bill from \$37.34 to \$42.60, an increase of \$5.26, or approximately 14.09 percent.

4. Nonrecurring Charges. Following the Commission's previous decisions,<sup>33</sup> Commission Staff has reviewed Butler County Water's Nonrecurring Charges. The Commission previously found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Butler County Water provided the cost justification for the nonrecurring charges.<sup>34</sup> Commission Staff reviewed the cost justification information provided by Butler County Water and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Butler County Water provided a list of the number of occurrences for each of its nonrecurring charges, this list included two new charges not present in Butler County Water's Tariff. Commission Staff requested Butler County Water confirm whether the Delinquent Service to Reconnect and Delinquent Service to Reconnect After Hours

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<sup>32</sup> Application, Attachment 1, Customer Notice at 2, the average retail customer has a 5/8 Inch meter using 4,008 gallons per month as used by Butler County Water.

<sup>33</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>34</sup> Butler County Water's Response to Staff's First Request, Item 15a, Attachment at 21.

charges are components of the Delinquent Service charge<sup>35</sup>. Butler County Water replied by affirming that the Delinquent Service to Reconnect and Delinquent Service to Reconnect After Hours are components of the Delinquent Service charge. Butler County Water also mentioned that if service is reconnected other than during regular working hours, the charge shall be \$65.<sup>36</sup>

Commission Staff notes that Butler County Water did not meet its burden of proof for providing sufficient evidence in regard to the Delinquent Service to Reconnect charge or Delinquent Service to Reconnect After Hours charge. Butler County Water's current tariff does not list either charge or was a cost justification provided on behalf of these two charges. Butler County Water also did not propose a new tariff charge in its application nor provide notice to its customers that it was proposing a new charge. Commission Staff notes that all other tariff charges are set out individually, including the other after hours charge. As a result, Commission Staff recommends that Butler County Water only be allowed to recover the Delinquent Service Charge, excluding labor. There is a substantial increase to the Service Investigation – After Hours of \$39, increasing the charge from \$65 to \$104 as requested by Butler County Water in the cost justification provided for Service Investigation – After Hours.<sup>37</sup> Commission Staff recommends the Commission to accept the increase to the Service Investigation-After Hours as the amount is measurable and reasonable. The adjustments mentioned above resulted in the following revised Nonrecurring Charges:

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<sup>35</sup> Staff's Second Request, Item 11.

<sup>36</sup> Butler County Water's Response to Staff's Second Request, Item 11 at 12.

<sup>37</sup> Butler County Water's Response to Staff's First Request, Item 15a, Attachment at 21.

Nonrecurring Charge

|                                   | <u>Current<br/>Charge</u> | <u>Revised<br/>Charge</u> |
|-----------------------------------|---------------------------|---------------------------|
| Service Connection                | \$25.00                   | \$8.00                    |
| Service Connection-After Hours    | \$65.00                   | \$57.00                   |
| Delinquent Service                | \$25.00                   | \$12.00                   |
| Meter Reading Recheck             | \$25.00                   | \$8.00                    |
| Service Investigation             | \$25.00                   | \$12.00                   |
| Service Investigation-After Hours | \$65.00                   | \$104.00                  |
| Meter Test Request                | \$50.00                   | \$5.00                    |
| Meter Investigation               | \$75.00                   | \$9.00                    |
| Returned Check                    | \$25.00                   | \$12.00                   |
| Service Line Inspection           | \$50.00                   | \$12.00                   |

The adjustments to the Nonrecurring Charges result in a decrease in Other Operating Revenue of \$16,009 as shown below.

| <u>Description</u>                | <u>Occurrences</u> | <u>Current<br/>Charge</u> | <u>Revised<br/>Charge</u> | <u>Adjustment</u>  | <u>Pro Forma</u>   |
|-----------------------------------|--------------------|---------------------------|---------------------------|--------------------|--------------------|
| Service Connection                | 428                | \$25.00                   | \$8.00                    | \$ (7,276)         | \$ 3,424           |
| Service Connection-After Hours    | 4                  | \$65.00                   | \$57.00                   | (32)               | 228                |
| Delinquent Service                | 561                | \$25.00                   | \$12.00                   | (7,293)            | 6,732              |
| Meter Reading Recheck             | 0                  | \$25.00                   | \$8.00                    | 0                  | 0                  |
| Service Investigation             | 5                  | \$25.00                   | \$12.00                   | (65)               | 60                 |
| Service Investigation-After Hours | 2                  | \$65.00                   | \$104.00                  | 78                 | 208                |
| Meter Test Request                | 0                  | \$50.00                   | \$5.00                    | 0                  | 0                  |
| Meter Investigation               | 12                 | \$75.00                   | \$9.00                    | (792)              | 108                |
| Returned Check                    | 25                 | \$25.00                   | \$12.00                   | (325)              | 300                |
| Service Line Inspection           | 8                  | \$50.00                   | \$12.00                   | (304)              | 96                 |
| Pro Forma Test Year NRC Revenue   |                    |                           |                           | <u>\$ (16,009)</u> | <u>\$ 11,156</u>   |
| Less: Test Year NRC Revenue ( )   |                    |                           |                           |                    | (27,165)           |
| Adjustment                        |                    |                           |                           |                    | <u>\$ (16,009)</u> |

Butler County Water also provided updated cost justification information for its 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge.<sup>38</sup> Commission Staff reviewed Butler County Water's proposal of keeping the tap-on-charge unchanged at \$1,600. However, the cost justification sheet showed a total connection expense of \$1,711. Commission

<sup>38</sup> Butler County Water's Response to Staff's First Request, Item 15b, Attachment at 21.

Staff recommends increasing the tap-on charge to reflect the expenses presented in the updated cost justification provided by Butler County Water to avoid under recovering \$111 per tap-on charge.

PRO FORMA OPERATING STATEMENT

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

| Description                                     | Test Year           | Proposed Adjustments | Commission Staff Adjustments | Total Adjustments | (Ref.) | Pro Forma           |
|---|---------------------|----------------------|------------------------------|-------------------|--------|---------------------|
| <b>Operating Revenues</b>                       |                     |                      |                              |                   |        |                     |
| Total Metered Water Sales                       | \$ 2,200,475        | \$ (23,666)          | \$ -                         | \$ (23,666)       | (A)    | \$ 2,176,809        |
| Private Fire Protection                         | 6,685               | (5,344)              | 5,340                        | (4)               | (B)    | 6,681               |
| <b>Total Sales of Water</b>                     | <b>2,207,160</b>    | <b>(29,010)</b>      | <b>5,340</b>                 | <b>(23,670)</b>   |        | <b>2,183,490</b>    |
| <b>Other Water Revenues</b>                     |                     |                      |                              |                   |        |                     |
| Forfeited Discounts                             | 32,405              |                      |                              |                   |        | 32,405              |
| Misc. Service Revenues                          | 28,185              | -                    | (16,009)                     | (16,009)          | (C)    | 12,176              |
| Other Water Revenues                            | 256                 |                      |                              |                   |        | 256                 |
| <b>Total Other Water Revenues</b>               | <b>60,846</b>       | <b>-</b>             | <b>(16,009)</b>              | <b>(16,009)</b>   |        | <b>44,837</b>       |
| <b>Total Operating Revenues</b>                 | <b>2,268,006</b>    | <b>(29,010)</b>      | <b>(10,669)</b>              | <b>(39,679)</b>   |        | <b>2,228,327</b>    |
| <b>Operating Expenses</b>                       |                     |                      |                              |                   |        |                     |
| <b>Operation and Maintenance Expenses</b>       |                     |                      |                              |                   |        |                     |
| Salaries and Wages - Employees                  | 430,015             | 97,270               | -                            | 97,270            | (D)    | 527,285             |
| Salaries and Wages - Officers                   | 18,000              |                      |                              |                   |        | 18,000              |
| Employee Benefits                               | 162,603             | (38,510)             | -                            | (38,510)          | (E)    | 129,623             |
|   |                     | 5,250                | 280                          | 5,530             | (F)    | 129,623             |
| Employee Pensions                               | 57,728              | 22,060               | -                            | 22,060            | (G)    | 79,788              |
| Purchased Power                                 | 154,304             | (10,428)             | (115)                        | (10,543)          | (H)    | 143,761             |
| Chemicals                                       | 88,875              | (6,006)              | (66)                         | (6,072)           | (H)    | 82,803              |
| Materials and Supplies                          | 86,124              |                      |                              |                   |        | 86,124              |
| Contractual Services- Accounting                | 6,041               |                      |                              |                   |        | 6,041               |
| Contractual Services- Legal                     | 161                 |                      |                              |                   |        | 161                 |
| Contractual Services- Water Testing             | 12,351              |                      |                              |                   |        | 12,351              |
| Contractual Services- Other                     | 199,571             |                      |                              |                   |        | 199,571             |
| Rental of Building/ Real Property               | 16,295              |                      |                              |                   |        | 16,295              |
| Transportation Expenses                         | 95,606              |                      |                              |                   |        | 95,606              |
| Insurance - Vehicle                             | 3,334               |                      |                              |                   |        | 3,334               |
| Insurance - Gen. Liability                      | 21,712              |                      |                              |                   |        | 21,712              |
| Insurance - Workers' Compensation               | 2,828               |                      |                              |                   |        | 2,828               |
| Insurance - Other                               | 1,202               |                      |                              |                   |        | 1,202               |
| Bad Debt  | (1,000)             |                      |                              |                   |        | (1,000)             |
| Miscellaneous Expense                           | 4,944               |                      |                              |                   |        | 4,944               |
| <b>Total Operation and Maintenance Expenses</b> | <b>1,360,693</b>    | <b>69,636</b>        | <b>99</b>                    | <b>69,735</b>     |        | <b>1,430,428</b>    |
| Depreciation                                    | 1,459,231           | -                    | (36,025)                     | (36,025)          | (I)    |                     |
|   |                     | (555,623)            | -                            | (555,623)         | (J)    |                     |
|   |                     | 104,680              | (10,280)                     | 94,400            | (K)    |                     |
|   |                     | 75,654               | -                            | 75,654            | (L)    | 1,037,636           |
| Taxes Other Than Income                         | 3,296               | 41,714               | -                            | 41,714            | (M)    | 45,010              |
| <b>Utility Operating Expenses</b>               | <b>2,823,219</b>    | <b>(263,939)</b>     | <b>(46,206)</b>              | <b>(310,145)</b>  |        | <b>2,513,074</b>    |
| <b>Net Operating Income</b>                     | <b>(555,213)</b>    | <b>234,929</b>       | <b>35,537</b>                | <b>270,466</b>    |        | <b>(284,747)</b>    |
| Gains/ Losses from Disposal of Utility Property | (5,840)             |                      |                              |                   |        | (5,840)             |
| Interest and Dividend Income                    | 28,352              |                      |                              |                   |        | 28,352              |
| Nonutility Income                               | 684                 |                      |                              |                   |        | 684                 |
| <b>Income Available to Service Debt</b>         | <b>\$ (532,017)</b> | <b>\$ 234,929</b>    | <b>\$ 35,537</b>             | <b>\$ 270,466</b> |        | <b>\$ (261,551)</b> |

(A) Metered Water Sales – Billing Analysis. Butler County Water provided a billing analysis listing the water usage and water sales revenue for the 12-month test year

in its application.<sup>39</sup> Butler County Water reported total metered water sales revenue of \$2,200,475 for the test year in its Schedule of Adjusted Operations.<sup>40</sup> Butler County Water provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$2,176,809 and proposed an adjustment to decrease test-year water sales revenue by \$23,666 to reflect the revenues from water rates generated by the billing analysis.<sup>41</sup> Commission Staff notes that a portion of the decrease could be the result of some nonrecurring charges being recorded as Sales of Water. Commission Staff recommends the Commission accept the adjustments because the amounts are known and measurable.

(B) Private Fire Protection – Billing Analysis. In its initial application, Butler County Water proposed an adjustment to Private Fire Protection of \$5,344, however, in the references section it mentioned an adjustment of only \$4 to which Butler County Water confirmed the \$5,344 adjustment was an error and should be ignored, the correct adjustment was a decrease of \$4.<sup>42</sup> The \$4 adjustment was suggested by Butler County Water in its Statement of Adjusted Operations (SAO) provided initially with the application as a necessary reduction given that the Current Billing Analysis resulted in a revenue of \$6,681 for Private Fire Protection.<sup>43</sup> Commission Staff agrees with the proposed \$4 adjustment because it is known and measurable. Commission Staff proposes no further adjustments to Private Fire Protection.

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<sup>39</sup> Application, Attachment 6, Attachment, Billing Analysis.

<sup>40</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>41</sup> Application, Attachment 6, Attachment, Billing Analysis.

<sup>42</sup> Butler County Water's Response to Staff's First Request, Item 21 at 28.

<sup>43</sup> Application, Attachment 4, Schedule of Adjusted Operations.



(C) Misc. Service Revenues – Nonrecurring Charges. Butler County Water provided the number of instances each nonrecurring charge was performed during the test period,<sup>44</sup> as well as the cost justification sheets.<sup>45</sup> Commission Staff reviewed the responses, the cost justification sheets, and the general ledger. As discussed above, Commission Staff followed the Commission’s precedent in removing field labor and office/clerical labor costs.<sup>46</sup> Using this information, as well as the current nonrecurring charge amount listed in its current tariff, Commission Staff calculated an adjustment to revenue from Nonrecurring Charges of \$16,009, resulting in a decrease to Misc. Service Revenues of the same amount. Therefore, Commission Staff recommends the Commission accept Commission Staff’s adjustment to Misc. Service Revenues because the amount is known and measurable.

(D) Salaries and Wages – Employees. Butler County Water pays the actual cost for field crews, engineering, and non-administrative personnel.<sup>47</sup> In its application, Butler County Water proposed an adjustment to increase Salaries and Wages – Employees by \$97,270,<sup>48</sup> to reflect Warren District’s current staff, the actual work done

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<sup>44</sup> Butler County Water’s Response to Staff’s First Request, Item 15, Attachment, Nonrecurring Charges.

<sup>45</sup> Butler County Water’s Response to Staff’s First Request, Item 15a, Attachment.

<sup>46</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>47</sup> Butler County Water’s Response to Staff’s First Request, Item 3.

<sup>48</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

during the test period and the current wage rates.<sup>49</sup> The labor and equipment hours are tracked through Warren District's timecard system and hours recorded by each employee is charged to the appropriate system.<sup>50</sup> Each system reimburses Warren District for the actual costs of these services on a monthly basis.<sup>51</sup> In addition, Butler County Water determined that the customer service employees are not involved with the capital projects and therefore, on a going forward basis 100 percent of their hours will be expensed.<sup>52</sup> Butler County Water provided the test year allocated employee position list with 59 full time employees performing work during the test year,<sup>53</sup> allocated test year hours worked for Butler County Water of 15,699 regular hours and 1,183 overtime hours,<sup>54</sup> and the current wage rates.<sup>55</sup> Commission Staff calculated a pro-forma Salaries and Wages – Employees amount of \$527,285 and agrees with Butler County Water's proposed increase of \$97,270 to the test year amount.

Commission Staff recommends the Commission accept Butler County Water's proposed \$97,270 increase to Salaries and Wages – Employee to reflect the normalization of test year employee-allocated hours at current salary wages.

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<sup>49</sup> Application, Attachment 4, References, Adjustment C.

<sup>50</sup> Butler County Water's Response to Staff's First Request, Item 3.

<sup>51</sup> Butler County Water's Response to Staff's First Request, Item 3.

<sup>52</sup> Application, Attachment 4, References, Adjustment C. Butler County Water's Response to Staff's First Request, Item 6a, Rows 82–84.

<sup>53</sup> Butler County Water's Response to Staff's First Request, Item 6, Column C.

<sup>54</sup> Butler County Water's Response to Staff's First Request, Item 6a, Cells G97 and J97.

<sup>55</sup> Butler County Water's Response to Staff's First Request, Item 6a, Column D.

(E) Employee Benefits – Reclassify Payroll Taxes. In its application, Butler County Water proposed an adjustment to decrease Employee Benefits by \$38,510<sup>56</sup> in order to account for the reclassification of payroll taxes.<sup>57</sup> Butler County Water proposed to recalculate the payroll taxes in adjustment (M).<sup>58</sup> Commission Staff agrees with Butler County Water’s proposed adjustment to remove payroll taxes from Employee Benefits in order to properly record payroll taxes in the proper expense account.

Commission Staff recommends the Commission accept Butler County Water’s proposed \$38,510 decrease to Employee Benefits to reflect the reclassification of Payroll Taxes into the correct category.

(F) Employee Benefits – Health Insurance. In its application, Butler County Water proposed an adjustment to increase Employee Benefits – Health Insurance by \$5,250<sup>59</sup> to reflect the pro forma level of employee benefits.<sup>60</sup> Butler County Water currently contributes 70 percent to an employee’s Health and Dental insurance premiums.<sup>61</sup> The Commission continues to review employees’ total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. The 30 percent current contribution amount is greater than the minimum recommended percentage and is reasonably close to the Bureau of Labor Statistics (BLS) average of

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<sup>56</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment D.

<sup>57</sup> Application, Attachment 4, References, Adjustment D.

<sup>58</sup> Application, Attachment 4, References, Adjustment D.

<sup>59</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

<sup>60</sup> Application, Attachment 4, References, Adjustment E.

<sup>61</sup> Application, Attachment 4, References, Adjustment E.

21<sup>62</sup> for single health insurance premium employee contributions, and 33 percent<sup>63</sup> for family insurance premium contributions. Therefore, Commission Staff recommends the Commission accept Butler County Water's contribution rate for single and family insurance premiums, as shown in the table below.

Consistent with precedent,<sup>64</sup> Commission Staff reduced Butler County Water's contribution amount to Dental Insurance premiums to align with the 60 percent Willis Benchmarking recommended contribution level.<sup>65</sup>

Butler County Water provided the most recent copy of Warren District's health and dental insurance invoices, including current premium levels and number of employees enrolled.<sup>66</sup> From the total insurance paid by Warren District, Commission Staff allocated to Butler County Water 11.76 percent, based upon the allocation methodology of test year allocated hours worked<sup>67</sup> by the total test year hours worked, as shown in the following table.

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<sup>62</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>63</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>64</sup> Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024), Order at 14–15.

<sup>65</sup> See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and The Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

<sup>66</sup> Butler County Water's Response to Staff's Second Request, Item 8.

<sup>67</sup> Butler County Water's Response to Staff's First Request, Item 6a, Cell G97 Allocated Regular Hours 15,699 +Cell J97 Allocated Overtime Hours 1,183 = 16,882.

| Description  | Hours<br>Worked |
|--|-----------------|
| Allocated Employee Hours                                 | 16,882          |
| Total Employee Hours (69 employees x 2,080 annual Hours) | 143,520         |
| Allocation Factor  | <u>11.76%</u>   |

Accordingly, utilizing the current invoice amount, Commission Staff calculated a final Insurance premium amount of \$56,772 which is \$5,530 more than the test year's \$51,242,<sup>68</sup> and \$280 more than Butler County Water's proposed increase of \$5,250; as shown in the following table.

| Type of Premium                                   | Number of<br>Employees | Employer<br>Contributions | Employee<br>Contribution<br>Rate | Monthly<br>Premium<br>Adjustment | Pro Forma<br>Monthly<br>Premium |
|---|------------------------|---------------------------|----------------------------------|----------------------------------|---------------------------------|
| <b>Medical Insurance</b>                          |                        |                           |                                  |                                  |                                 |
| Employee Only (E)                                 | 46                     | \$ 27,514                 | 30%                              | \$ (8,254)                       | \$ 19,260                       |
| Employee/Spouse (ES)                              | 8                      | 8,699                     | 30%                              | (2,610)                          | 6,089                           |
| Employee/Children (EC)                            | 4                      | 3,828                     | 30%                              | (1,148)                          | 2,680                           |
| Family (F)  | 10                     | 15,049                    | 30%                              | (4,515)                          | 10,534                          |
| <b>Dental Insurance</b>                           |                        |                           |                                  |                                  |                                 |
| Employee Only (E)                                 | 35                     | 1,063                     | 60%                              | (638)                            | 425                             |
| Employee/Spouse (ES)                              | 10                     | 630                       | 60%                              | (378)                            | 252                             |
| Employee/Children (EC)                            | 5                      | 370                       | 60%                              | (222)                            | 148                             |
| Family (F)  | 20                     | 2,081                     | 60%                              | (1,249)                          | 832                             |
| Total Pro Forma Monthly Premium                   |                        | 59,234                    |                                  | (19,014)                         | 40,220                          |
| Times: 12 Months                                  |                        | 12                        |                                  | 12                               | 12                              |
| Total Annual Pro Forma Premium                    |                        | <u>\$ 710,808</u>         |                                  | <u>\$ (228,168)</u>              | 482,640                         |
| Multiplied by Current Allocation Percentage       |                        |                           |                                  |                                  | 11.76%                          |
| Total Allocated Insurance Premiums                |                        |                           |                                  |                                  | 56,772                          |
| Less: Test Year Insurance ( )                     |                        |                           |                                  |                                  | (51,242)                        |
| Employee Benefits Adjustment                      |                        |                           |                                  |                                  | 5,530                           |
| Less: Commission Staff Recommended Adjustment ( ) |                        |                           |                                  |                                  | (5,250)                         |
| Final Pro Forma Employee Benefits Adjustment      |                        |                           |                                  |                                  | <u>\$ 280</u>                   |

<sup>68</sup> Application, Attachment 4, Schedule of Adjusted Operations table.

Commission Staff recommends the Commission accept Commission Staff's \$5,530 increase to Employee Benefits; to reflect the reduction of employee insurance employer contributions to the dental insurance coverage, as well as changes to insurance premiums.

(G) Employee Pension – 401(a). Rather than participate in the County Employee Retirement System (CERS), Warren District provides its employees with a private pension fund and 401(a) benefit.<sup>69</sup> In its application, Butler County Water proposed an adjustment increasing Employee Pension by \$22,060<sup>70</sup> to account for the increase in pro-forma Salaries and Wages - Wages subsequent to the test year.<sup>71</sup> For all full time employees, Warren District contributes 7 percent of the Employee's Gross Salaries Expense, not including bonuses, into the 401(a),<sup>72</sup> and 12.83 percent for the pension<sup>73</sup> for a total contribution of 19.83 percent.<sup>74</sup>

Utilizing the pro forma Salaries and Wages – Employees of \$527,285 calculated in adjustment (D) and Butler County Water's contribution rates to the 401(a) and the Pension, Commission Staff calculated a Pro Forma Retirement contribution of \$104,561. Therefore, Commission Staff agrees with Butler County Water's proposed adjustment increasing Employee Pensions and Benefits by \$22,060, as shown in the following table.

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<sup>69</sup> Application, Attachment 4, References, Adjustment F.

<sup>70</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

<sup>71</sup> Application, Attachment 4, Adjustment F.

<sup>72</sup> Butler County Water's Response to Staff's First Request, Item 5, Pension & Benefits Tab, Cell E32.

<sup>73</sup> Butler County Water's Response to Staff's First Request, Item 5, Pension & Benefits Tab, Cell E33.

<sup>74</sup> Application, Attachment 4, Adjustment F.

| Description                         | Pro Forma<br>Employee<br>Salaries & Wages | Employer<br>Contribution<br>Rates | Total            |
|-------------------------------------|---|-----------------------------------|------------------|
| 401A Contribution                   | \$ 527,285                                | 7.00%                             | \$ 36,910        |
| Pension                             | 527,285                                   | 12.83%                            | 67,651           |
| Pro Forma Retirement                |   |                                   | 104,561          |
| Less: Test-Year Emp. Retirement ( ) |   | 19.83%                            | (82,501)         |
| Retirement Adjustment               |   |                                   | <u>\$ 22,060</u> |

Commission Staff recommends the Commission accept Butler County Water’s proposed \$22,060 increase to Employee Benefits to reflect the increase of employee retirement expense due to an increase in Salaries and Wages – Employees.

(H) Water Loss in Excess of 15 Percent. In its application, Butler County Water proposed adjustments to decrease Purchased Power Expense by \$10,428, and Chemicals Expense by \$6,006,<sup>75</sup> to reflect the expense for water loss in excess of 15 percent.<sup>76</sup> During the test year, Butler County Water reported water loss of 21.7583 percent.<sup>77</sup> As noted earlier in the report, Commission regulations prohibit the recovery of expenses for water loss in excess of 15 percent. Commission Staff determined Butler County Water did not include other loss in its calculation of water loss. Therefore, Commission Staff determined a test year water loss should have been of 21.8325 percent for the test year.<sup>78</sup> Commission Staff calculated a net decrease of \$10,543 to Purchased Water Expense, which is \$115 more than proposed by Butler County Water. Commission

<sup>75</sup> Application, Attachment 4, References, Adjustment G.

<sup>76</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

<sup>77</sup> Butler County Water’s Response to Staff’s First Request, Item 5, WatPurch Tab, Cell D36.

<sup>78</sup> 2022 Annual Report, at 57.

Staff also calculated a net decrease of \$6,072 to Chemicals Expense, which is \$66 more than proposed by Butler County Water, as shown in the following table.

| Description                                     | Purchased  |           |            |
|---|------------|-----------|------------|
|   | Power      | Chemicals | Total      |
| Pro Forma Expenses                              | \$ 154,304 | \$ 88,875 | \$ 243,179 |
| Multiply by: Water loss in Excess of 15 Percent | 6.8325%    | 6.8325%   | 6.8325%    |
| Excess Cost                                     | (10,543)   | (6,072)   | (16,615)   |
| Less: Proposed Adjustment ( )                   | 10,428     | 6,006     | 16,434     |
| Commission Staff's Adjustment                   | \$ (115)   | \$ (66)   | \$ (181)   |

Commission Staff recommends the Commission accept Commission Staff's \$10,543 decrease to Purchased Water Expense and Commission Staff's \$6,072 decrease to Chemicals expense; to reflect the reduction in purchased power and chemical expenses due to excess water loss above 15 percent.

(l) Depreciation Expense – Normalize to NARUC Service Lives. In its application, Butler County Water reported a test year Depreciation Expense of \$1,459,231.<sup>79</sup> Butler County Water also reported that during 2022, it adopted using the midpoint of the National Association of Regulatory Utility Commissioners (NARUC) study titled *Depreciation Practices for Small Water Utilities* (NARUC Study).<sup>80</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Upon examination, Commission Staff agrees with Butler County Water transition. Before the

<sup>79</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>80</sup> Application, Attachment 4, References, Adjustment H.



additional proposed adjustments discussed below, Commission Staff calculated a Depreciation Expense of \$1,423,206. Generally, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff proposed a decrease to Butler County Water’s Depreciation Expense of \$36,025, as shown in the following table:

| Categories   | NARUC Service Life Range | Test Year Depreciation | Depreciation Adjustment | Pro Forma Depreciation |
|--|--------------------------|------------------------|-------------------------|------------------------|
| 101.3032-8 Land-Pumping Stations                               | N/A                      | \$ -                   | \$ -                    | \$ -                   |
| 3042 Structures & Improvements                                 | 35 - 40                  | 37,122                 | 1                       | 37,123                 |
| 3043 Structures & Improvements                                 | 35 - 40                  | 14,187                 | -                       | 14,187                 |
| 3045 Structures & Improvements                                 | 35 - 40                  | 19,673                 | -                       | 19,673                 |
| 3065 Lake, Rivers, and Other Intakes                           | 35 - 45                  | 636                    | 809                     | 1,445                  |
| 3095 Supply Mains  | 50 - 75                  | 60                     | (36)                    | 24                     |
| 3112 Pumping Equipment   | 35 - 45                  | 38,723                 | (5)                     | 38,718                 |
| 3115 Electric Pumping  | 20                       | 6,660                  | -                       | 6,660                  |
| 3203 Water Treatment Equipment                                 | 20 - 35                  | 586,282                | (4)                     | 586,278                |
| 3205 Water Treatment Equipment                                 | 20 - 35                  | 5,135                  | -                       | 5,135                  |
| 3304 Standpipes - Reservoirs and Tanks                         | 30 - 60                  | 134,483                | (15,611)                | 118,872                |
| 3314 Transmission & Distribution Mains                         | 50 - 75                  | 194,682                | 2,516                   | 197,198                |
| 3324 SCADA - Communication Equipment                           | 10                       | 42,770                 | 69.00                   | 42,839.00              |
| 3334 Meter Services  | 30 - 50                  | 78,992                 | 628                     | 79,620                 |
| 3344 Meters AMR Meters   | 20                       | 207,559                | 1,341                   | 208,900                |
| 3345- Meter Installations                                      | 40 - 50                  | 37,977                 | 238                     | 38,215                 |
| 3354 Hydrants  | 50                       | 4,067                  | 11                      | 4,078                  |
| 3392 Other Pumping Equipment                                   | 25                       | 48                     | 412                     | 460                    |
| 3400 Software Billing System - Office Equipment                | 20 - 25                  | 23,897                 | (12,707)                | 11,190                 |
| 3401 Hardware Billing System - Office Equipment                | 20 - 25                  | 4,243                  | (3,603)                 | 640                    |
| 3405 Furniture & Office Equipment                              | 20 - 25                  | 1,664                  | 5                       | 1,669                  |
| 3415 Transportation Equipment                                  | 7                        | 4,018                  | -                       | 4,018                  |
| 3435 Tools, Shop & Garage Equipment                            | 15 - 20                  | 1,467                  | 74                      | 1,541                  |
| 3465 Communications Equipment                                  | 10                       | 3,702                  | (3)                     | 3,699                  |
| 3475 Miscellaneous Equipment - Poer Operated Equipment         | 10 - 15                  | 62                     | -                       | 62                     |
| 3485 Other Tangible Plant - Structures and Improvements        | 35 - 40                  | 132                    | 830                     | 962                    |
| Total Depreciation Expense                                     |                          | <u>\$ 1,448,241</u>    | (25,035)                | 1,423,206              |
| Less: Butler County Water's Test Year Depreciation Expense ( ) |                          |                        |                         | (1,459,231)            |
| Commission Staff's Proposed Depreciation Expense Adjustment    |                          |                        |                         | <u>\$ (36,025)</u>     |

Commission Staff recommends the Commission accept Commission Staff’s \$36,025 decrease to Depreciation Expense; to reflect the adoption of the NARUC midpoint service lives for fixed assets.

(J) Depreciation Expense – Fully Depreciated Assets. In 2022, Butler County Water adopted the mid-point of the National Association of Regulatory Utility

Commissioners (NARUC) titled Depreciation Practices for Small Water Utilities (NARUC Study).<sup>81</sup> In its application, Butler County Water proposed a decrease to Depreciation expense of \$555,623,<sup>82</sup> to reflect a one-time adjustment to depreciation expense resulting from assets that exceed the remaining service lives after Butler County Water started using the NARUC Study.<sup>83</sup> Since the conversion to the NARUC midpoint methodology was a one-time occurrence, and not likely to reoccur in the future, Commission Staff agrees with reducing Depreciation Expense of \$555,623 as shown in the following table:

| Acct. No. | Account Title                         | 2022 Adjmt to NARUC |
|-----------|---------------------------------------|---------------------|
| 3042      | Structures & Improvements             | \$ 24               |
| 3045      | Structures & Improvements             | 8,779               |
| 3115      | Pumping Equipment                     | 43,416              |
| 3205      | WTP Equipment                         | 351,646             |
| 3304      | Distributions Reservoirs & Standpipes | 2,470               |
| 3324      | SCADA Equipment                       | 38,872              |
| 3334      | Meter Services                        | 16,899              |
| 3344      | Meters                                | 86,759              |
| 3345      | Meter Instalations                    | 766                 |
| 3400      | Software                              | 5,706               |
| 3435      | Tools & Shop Equipment                | 224                 |
| 3475      | Equip-Other                           | 62                  |
|           |                                       | <u>\$ 555,623</u>   |

Commission Staff recommends the Commission accept Butler County Water’s proposed \$525,623 decrease to Depreciation Expense; to reflect the one-time adjustment for account for fully depreciated assets due to the conversion to the NARUC midpoint methodology.

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<sup>81</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

<sup>82</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

<sup>83</sup> Application, Attachment 4, References, Adjustment H.

(K) Depreciation Expense – Post Test year Asset Addition. In its application, Butler County Water proposed an adjustment to increase Depreciation Expense by \$104,680,<sup>84</sup> to reflect depreciation of its post-test year plant additions over the appropriate NARUC depreciation lives.<sup>85</sup> Butler County Water provided a list of its fixed assets used to generate the depreciation schedule<sup>86</sup> as well as the projects and assets that were added subsequent to the test-year.<sup>87</sup> Commission Staff agrees with the inclusion of post-test year asset additions, since the proposed rates will need to be sufficient to recover the cost for the depreciation of these assets on a going forward basis. However, Commission Staff disagrees with some of the proposed useful lives and adjusted them to match the NARUC studies useful lives. Therefore, Commission Staff proposes an increase to Depreciation expense of \$94,400, which is \$10,280 less than the \$104,680 proposed by Butler County Water, as shown in the following table.

| Project Description                                 | NARUC Asset Class              | Total Project       | Depreciation |                     | Completion Date     |
|---|--------------------------------|---------------------|--------------|---------------------|---------------------|
|   |                                |                     | Lives        | Annual Depreciation |                     |
| SCADA Replacement                                   | Communication Equipment        | \$ 872,400          | 10.0         | \$ 87,240           | In-Progress         |
| Tank Repair - Silver City                           | Structures and Improvements    | 72,736              | 37.5         | 1,940               | 12/31/2023          |
| Painting - WTP & Pump Stations                      | Structures and Improvements    | 51,455              | 37.5         | 1,372               | 12/31/2023          |
| Cityworks Asset Management Software Implementation  | Office Furniture and Equipment | 37,578              | 22.5         | 1,670               | 45291               |
| Meter Installations                                 | Meter Installations            | 19,614              | 45.0         | 436                 | Installed Year 2023 |
| Creek Crossing                                      | Supply Mains                   | 108,870             | 62.5         | 1,742               | 12/31/2022          |
| Totals  |                                | <u>\$ 1,162,653</u> |              | <u>94,400</u>       |                     |
| Less: Butler County Water's Proposed Adjustment ( ) |                                |                     |              | (104,680)           |                     |
| Commission Staff's Proposed Adjustment              |                                |                     |              | <u>\$ (10,280)</u>  |                     |

Commission Staff recommends the Commission accept Commission Staff's proposed \$94,400 increase to Depreciation Expense; to reflect the inclusion of post-test year asset additions.

<sup>84</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

<sup>85</sup> Application, Attachment 4, References, Adjustment I.

<sup>86</sup> Butler County Water's Response to Staff's First Request, Item 17.

<sup>87</sup> Butler County Water's Response to Staff's First Request, Item 5, Dep Adj Tab.

(L) Depreciation Expense – Badger M25 Radio Read Meters. In the application, Butler County Water proposed an adjustment to increase Depreciation Expense by \$75,675,<sup>88</sup> to reflect the reduction of the estimated useful service lives for the Badger M25 5/8-Inch AMR meters from 20 years to 10 years.<sup>89</sup> Butler County Water has approximately 169 Badger M25 5/8 AMR meters.<sup>90</sup> Butler County Water reported that the 20-year service life for the Badger M25 meters was established based the performance of a similar meter utilized by Warren District, Butler County Water, and Simpson District, the Sensus SR11, which maintains accuracy beyond 20 years.<sup>91</sup> Butler County Water reported that in March 2023, 64.6 percent, of the meters of Badger M25 meters tested in service for ten years failed the American Waters Works Association (AWWA) meter accuracy testing among the three water utilities under the joint operation agreement.<sup>92</sup>

| Water System | Total     | Passed    | Failed    | Failure Percent |
|--------------|-----------|-----------|-----------|-----------------|
| Warren       | 39        | 12        | 27        | 69.23%          |
| Butler       | 2         | 1         | 1         | 50.00%          |
| Simpaon      | 7         | 4         | 3         | 42.86%          |
| <b>Total</b> | <b>48</b> | <b>17</b> | <b>31</b> | <b>64.58%</b>   |

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<sup>88</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment J.

<sup>89</sup> Application, Attachment 4, References, Adjustment J.

<sup>90</sup> Butler County Water’s Response to Staff’s Third Request, Item 2, Attachment, 2.a,b,c.

<sup>91</sup> Butler County Water’s Response to Staff’s First Request, Item 16.

<sup>92</sup> Butler County Water’s Response to Staff’s First Request, Item 16.

Between January and July 2023, 422 other Badger M25 meters were tested after less than ten years of service life and 21.8 percent failed accuracy standards as shown in the following table.<sup>93</sup>

| Age          | Total      | Passed     | Failed    | Failure Percent |
|--------------|------------|------------|-----------|-----------------|
| Less than 1  | 21         | 21         | 0         | 0.00%           |
| 1            | 41         | 41         | 0         | 0.00%           |
| 2            | 24         | 24         | 0         | 0.00%           |
| 3            | 30         | 30         | 0         | 0.00%           |
| 4            | 28         | 25         | 3         | 10.71%          |
| 5            | 16         | 15         | 1         | 6.25%           |
| 6            | 25         | 21         | 4         | 16.00%          |
| 7            | 34         | 34         | 0         | 0.00%           |
| 8            | 33         | 32         | 1         | 3.03%           |
| 9            | 155        | 75         | 80        | 51.61%          |
| 10           | 15         | 12         | 3         | 20.00%          |
| <b>Total</b> | <b>422</b> | <b>330</b> | <b>92</b> | <b>21.80%</b>   |

Butler County Water also reported that the Badger M25 meters were purchased with a 15-year warranty.<sup>94</sup> On April 6, 2023, Butler County Water stated that it notified Badger of accuracy failures and at the request of Badger, on May 1, 2023, six meters with failing levels of accuracy were shipped to the Badger testing facilities.<sup>95</sup> However, Butler County Water reported that it is unlikely Badger M25 meters will be replaced under the 15-year warranty based upon its communications with Badger representatives.<sup>96</sup> Badger communicated that the warranty shall not apply when products are exposed to conditions

<sup>93</sup> Butler County Water's Response to Staff's First Request, Item 16.

<sup>94</sup> Butler County Water's Response to Staff's First Request, Item 16.

<sup>95</sup> Butler County Water's Response to Staff's Third Request, Item 3c.

<sup>96</sup> Butler County Water's Response to Staff's Third Request, Item 3a.

outside of Badger’s control, which includes water condition or chemistry to a water utility’s distribution system. Badger clarified that the concern impacting the returned meters is tied to water chemistry and/or water conditions, not water quality.<sup>97</sup> Butler County Water intends to pursue litigation against Badger for its refusal to replace meters failing to meet accuracy standards as specified in the meter warranty.<sup>98</sup>

Butler County Water reported that a 15-year service life would not be reasonable for Badger M25 meters as the test data indicates a substantial number of meters will fail at approximately ten years of age.<sup>99</sup> Butler County Water argued that if a 15-year useful life is applied, meters failing at ten years will have residual book values and it would be required to write off the residual value and record a disposition loss as the Badger M25 meters are removed from service.<sup>100</sup>

Butler County Water stated that it plans to replace failing meters with ultrasonic meters and that these are becoming an industry standard and provide improved accuracy and lower maintenance.<sup>101</sup> Butler County Water reported that pilot programs were installed with small quantities of meters from various manufacturers, and their performance is being monitored.<sup>102</sup> Butler County Water stated it will issue a Request for Proposals specifying the purchase of ultrasonic meters.<sup>103</sup>

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<sup>97</sup> Butler County Water’s Response to Staff’s Third Request, Item 3d, Attachment.

<sup>98</sup> Butler County Water’s Response to Staff’s Third Request, Item 3d.

<sup>99</sup> Butler County Water’s Response to Staff’s Third Request, Item 5.

<sup>100</sup> Butler County Water’s Response to Staff’s Third Request, Item 5.

<sup>101</sup> Butler County Water’s Response to Staff’s Third Request, Item 8.

<sup>102</sup> Butler County Water’s Response to Staff’s Third Request, Item 8.

<sup>103</sup> Butler County Water’s Response to Staff’s Third Request, Item 8.

Butler County Water began installing Kamstrup Ultrasonic 5/8 meters in 2023 to replace the Badger M25 5/8 Meters.<sup>104</sup> Butler County Water reported that as of July 15, 2024, the number of Kamstrup Ultrasonic 5/8” meters in service totaled 105.<sup>105</sup> Butler County Water reported that in 2024, Butler County Water began installing Master Meter Sonata Ultrasonic 5/8” meters in addition to the Kamstrup meters and that as of July 15, 2024, the number of Master Meter Sonata Ultrasonic 5/8” meters in service totaled 24.<sup>106</sup> Butler County Water stated that the other water meters it uses maintain accuracy, with only 5.47 percent failing accuracy tests after 20 years.<sup>107</sup>

In addition, Warren District has recently filed its application for a general adjustment of its water rates.<sup>108</sup> In that application, Warren District did not do a depreciation study; however, it did provide a full depreciation schedule broken down by account.<sup>109</sup> In that schedule, Warren District has adjusted the useful lives of its AMI meters to ten years.<sup>110</sup>

Given the failure rates of the Badger M25 meters, as well as Warren District’s adjustment as to the meters’ useful lives, Commission Staff agrees with Butler County

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<sup>104</sup> Butler County Water’s Response to Staff’s Third Request, Item 2d.

<sup>105</sup> Butler County Water’s Response to Staff’s Third Request, Item 2d.

<sup>106</sup> Butler County Water’s Response to Staff’s Third Request, Item 2d.

<sup>107</sup> Butler County Water’s Response to Staff’s Third Request, Item 4.

<sup>108</sup> Case No. 2024-00200, *Electronic Application of Warren County Water District for an Adjustment of Rates for Water Service*.

<sup>109</sup> Case No. 2024-00200, (filed Aug. 13, 2024), Warren District’s Response to Commission Staff’s First Request for Information, Item 19, Exhibit 19.

<sup>110</sup> Account 101. June 2024 Depreciation Schedule tab. AMR/AMI 5/8ths meters. It does not specifically list a brand in this Excel file which would indicate that Warren District has adjusted the useful life of all its AMI/AMR 5/8ths meters to a ten-year useful life.

Water's statement that a 20-year service life is overstating the life expectancy of the Bader M25 meters.<sup>111</sup> Commission Staff believes that Butler County Water has provided sufficient evidence of the problem, its attempts to address the problems and fix the meters using the warranty and Commission Staff agrees that writing off residual book values does not benefit the utility or the ratepayers in this case. Commission Staff agrees with Butler County Water's proposed adjustment to reduce the Depreciation service lives for only the Bader M25 Meters from the projected 20 years to 10 years. Therefore, Commission Staff agrees with the proposed increase to Depreciation expense of \$75,675.

Commission Staff recommends the Commission accept Butler County Water's proposed \$75,675 increase to Depreciation Expense; to reflect the reduction of Badger M25 meter's useful lives from 20 to 10 years.

(M) Taxes other than Income – Federal Insurance Contributions Act (FICA). In the application, Butler County Water proposed an adjustment to increase Taxes Other than Income by \$41,714<sup>112</sup> to account for changes in Payroll taxes as a result of changes to Salaries and Wages – Employees.<sup>113</sup> As discussed in adjustment (E), Commission Staff agreed with Butler County Water's proposal to remove Payroll taxes from Employee Benefits. As stated above, Commission Staff agreed with Butler County Water's calculation of pro forma Salaries and Wages – Employees of \$527,285, and Salaries and Wages – Officers of \$18,000. Therefore, Commission Staff calculated pro forma payroll

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<sup>111</sup> Butler County Water's Response to Staff's First Request, Item 16.

<sup>112</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment K.

<sup>113</sup> Application, Attachment 4, References, Adjustment K.



taxes of \$41,714 and a pro forma Taxes Other Than Income of \$45,010, which is an increase of \$41,714, as shown in the following table.

| Description                                 | Amount           |
|---|------------------|
| Salaries and Wages - Employees              | \$ 527,285       |
| Salaries and Wages - Officers               | 18,000           |
| Total Pro Forma Salaries                    | 545,285          |
| Times: 7.65 Percent FICA Rate               | 7.65%            |
| Total Pro Forma Payroll Taxes               | 41,714           |
| Plus: PSC Assessment                        | 3,296            |
| Total Taxes Other Than Income               | 45,010           |
| Less: Test Year Taxes Other Than Income ( ) | (3,296)          |
| Total Taxes Other Than Income Adjustment    | <u>\$ 41,714</u> |

Commission Staff recommend the Commission accept Butler County Water’s \$41,714 increase to Taxes other than Income; to reflect the normalization of Payroll taxes due to changes in Salaries and Wages.

#### 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.<sup>114</sup> 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

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<sup>114</sup> Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022). Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

capital;<sup>115</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.

| Description  | Butler County<br>Water | Commission<br>Staff |     |
|--|------------------------|---------------------|-----|
| Pro Forma Operating Expenses                         | \$ 2,559,281           | \$ 2,513,074        |     |
| Plus: Average Annual Principal and Interest Payments | 368,377                | 369,800             | (1) |
| Plus: Additional Working Capital                     | 73,675                 | 73,960              | (2) |
| Total Revenue Requirement                            | <u>\$ 3,001,333</u>    | <u>\$ 2,956,834</u> |     |
| Plus: Loss from Disposition of Utility Property ( )  | -                      | 5,840               |     |
| Less: Other Operating Revenue ( )                    | (60,846)               | (44,837)            |     |
| Less: Interest and Dividend Income ( )               | (10,548)               | (28,352)            |     |
| Less: Nonutility Income ( )                          | (348)                  | (684)               |     |
| Revenue Required From Water Sales                    | <u>2,929,591</u>       | <u>2,888,801</u>    |     |
| Less: Revenue from Sales at Present Rates ( )        | (2,178,150)            | (2,183,490)         |     |
| Required Revenue Increase                            | <u>\$ 751,441</u>      | <u>\$ 705,311</u>   |     |
| Percentage Increase                                  | <u>34.50%</u>          | <u>32.30%</u>       |     |

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Butler County Water had two U.S. Department of Agriculture's

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<sup>115</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).

(USDA) Rural Development (RD) Promissory Notes<sup>116</sup> and two Kentucky Rural Water Finance Corporation (KRWFC) loans.<sup>117</sup> In its application, Butler County Water requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the five years following the test year, which is 2024 through 2028.<sup>118</sup> Commission Staff agrees with Butler County Water’s methodology, however Commission Staff calculated a different average annual principal and interest. As shown below, Commission Staff calculated an Average Principal and Interest expense of \$369,800.

| Debt Issuance                                  | 2024             |                  | 2025             |                  | 2026             |                  | 2027             |                  | 2028             |                 | Total             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|-------------------|
|  | Principal        | Interest & Fees  | Principal        | Interest & Fees  | Principal        | Interest & Fees  | Principal        | Interest & Fees  | Principal        | Interest & Fees |                   |
| KRWFC 2012G                                    | \$ 160,000       | \$ 61,250        | \$ 165,000       | \$ 54,750        | \$ 170,000       | \$ 48,050        | \$ 175,000       | \$ 41,150        | \$ 175,000       | \$ 34,150       | \$ 1,084,350      |
| USDA 2014 #91-24                               | 8,058            | 10,624           | 8,280            | 10,402           | 8,508            | 10,174           | 8,742            | 9,940            | 8,981            | 9,701           | 93,410            |
| USDA 2018 #91-26                               | 23,351           | 35,719           | 23,994           | 35,076           | 24,653           | 34,417           | 25,331           | 33,739           | 26,028           | 33,042          | 295,350           |
| KRWFC 2021B                                    | 55,000           | 21,330           | 55,000           | 19,570           | 55,000           | 19,810           | 60,000           | 16,050           | 60,000           | 14,130          | 375,890           |
| <b>Total</b>                                   | <b>\$246,409</b> | <b>\$128,923</b> | <b>\$252,274</b> | <b>\$119,798</b> | <b>\$258,161</b> | <b>\$112,451</b> | <b>\$269,073</b> | <b>\$100,879</b> | <b>\$270,009</b> | <b>\$91,023</b> | <b>1,849,000</b>  |
| Divided by 5 years                             |                  |                  |                  |                  |                  |                  |                  |                  |                  |                 | 5                 |
| Average Annual Principal and Interest Payments |                  |                  |                  |                  |                  |                  |                  |                  |                  |                 | <b>\$ 369,800</b> |

<sup>116</sup> Case No. 2014-00353, *Application of Butler County Water System, Inc. (1) for a Certificate of Public Convenience and Necessity Authorizing Said System to Construct Major Improvements and Additions to its Existing Municipal Water Treatment System Financed by Rural Economic and Community Development Service (Formally Farmers Home Administration) Pursuant to the Provisions of KRS 278.023 of the Kentucky Revised Statutes; and (2) Seeking Approval of the Issuance of Certain Securities, and (3) Approval of Water Rates*, (Ky. PSC Oct. 27, 2014). Case No. 2018-00048, *Electronic Application of Butler County Water System, Inc., Butler County, Kentucky, (1) for a Certificate of Public Convenience and Necessity Authorizing Said System to Construct Major Improvements and Additions to its Existing Municipal Water Distribution System Financed by Rural Economic and Community Development Service (Formally Farmers Home Administration) Pursuant to the Provisions of KRS 278.023 of the Kentucky Revised Statutes; and (2) Seeking Approval of the Issuance of Certain Securities, and (3) Approval of Water Rates*, (Ky. PSC Mar. 1, 2018).

<sup>117</sup> Case No. 2012-00474, *Application of Butler County Water System, Inc. to Issue Securities in the Approximate Principal Amount of \$3,085,000 for the Purpose of Refunding Certain Outstanding Indebtedness of the Association Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001*, (Ky. PSC Nov. 9, 2012). Case No. 2021-00016, *Electronic Application of the Butler County Water System, Inc. to Issue Securities in the Approximate Principal Amount of \$840,000 for the Purpose of Refunding Certain Outstanding Obligations of the Association Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001*, (KY. PSC Mar. 12, 2021).

<sup>118</sup> Application, Revenue Requirements Calculation, Table B, Debt Service Schedule.

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 average annual debt payments. In its application, Butler County Water requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its bonds at the time of its application for a total of \$18,401.<sup>119</sup>

Following the Commission's historic practice,<sup>120</sup> Commission Staff agrees with Butler County Water's methodology. Therefore, when the adjustment to the average Annual Principal and Interest Payments \$73,960 is included in the revenue requirement as shown in the following table:

| Description  | Amount           |
|--|------------------|
| Average Annual Principal and Interest                    | \$ 369,800       |
| Times: DSC Coverage Ratio                                | 120%             |
| Total Net Revenues Required                              | 443,760          |
| Less: Average Annual Principal and Interest Payments ( ) | (369,800)        |
| Additional Working Capital                               | <u>\$ 73,960</u> |

3. Interest Income and Nonutility Income. In the application, Butler County Water recorded \$10,548 for its test year Interest and Dividend Income and \$348 for Nonutility Income.<sup>121</sup> However, Butler County Water reported that these amounts were

<sup>119</sup> Butler County Water's Response to Staff's First Request, Item 5, SAO-DCS Tab, Cell L50.

<sup>120</sup> Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Nov. 17, 2023). Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024). Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).

<sup>121</sup> Application, Attachment 4, Revenue Requirements table.

from 2021 instead of the test year.<sup>122</sup> Commission Staff updated these figures to represent the test year amounts. Therefore, Interest Income was updated to \$28,352,<sup>123</sup> and Nonutility Income was updated to \$684.<sup>124</sup>

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<sup>122</sup> Butler County Water's Response to Staff's First Request, Item 13a and 13b.

<sup>123</sup> Butler County Water's Response to Staff's First Request, Item 13a.

<sup>124</sup> Butler County Water's Response to Staff's First Request, Item 13b.

Signatures

/s/ William Foley

Prepared by: William Foley  
Revenue Requirement Branch  
Division of Financial Analysis

/s/ Manuel Jerez Tamayo

Prepared by: Manuel Jerez Tamayo  
Rate Design Branch  
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00061 DATED AUG 28 2024

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

| SERVICE CONNECTION                     |                        |                      |
|--|------------------------|----------------------|
|  | Utility Revised Charge | Staff Revised Charge |
| Field Materials                        | \$0.00                 | \$0.00               |
| Field Labor (0.76 Hours x \$ 35.86)    | \$27.17                | \$0.00               |
| Office Supplies                        | \$0.00                 | \$0.00               |
| Office Labor (0.42 Hours X \$ 33.22)   | \$13.95                | \$0.00               |
| Transportation (0.76 Hours X \$ 10.00) | \$7.58                 | \$7.58               |
| Misc.                                  | \$0.00                 | \$0.00               |
| Total Revised Charge*                  | <u>\$48.70</u>         | <u>\$8.00</u>        |
| Current Rate                           | \$25.00                |                      |

| SERVICE CONNECTION-AFTER HOURS                            |                        |                      |
|---|------------------------|----------------------|
|   | Utility Revised Charge | Staff Revised Charge |
| Field Materials   | \$0.00                 | \$0.00               |
| Field Labor (0.76 Hours x \$ 53.78)                       | \$40.75                | \$40.75              |
| Office Supplies   | \$0.00                 | \$0.00               |
| Office Labor (0.42 Hours X \$ 33.22)                      | \$13.95                | \$0.00               |
| Transportation (0.76 Hours X \$ 10.00)                    | \$7.58                 | \$7.58               |
| Misc. (Combined Communications - After Hour Call Service) | \$8.97                 | \$8.97               |
| Total Revised Charge*                                     | <u>\$71.25</u>         | <u>\$57.00</u>       |
| Current Rate  | \$65.00                |                      |

| DELINQUENT SERVICE                     |                        |                      |
|--|------------------------|----------------------|
|  | Utility Revised Charge | Staff Revised Charge |
| Field Materials                        | \$0.00                 | \$0.00               |
| Field Labor (1.12 Hours x \$ 44.04)    | \$49.45                | \$0.00               |
| Office Supplies                        | \$1.11                 | \$1.11               |
| Office Labor (0.20 Hours x \$ 33.22)   | \$6.63                 | \$0.00               |
| Transportation (1.12 Hours x \$ 10.00) | \$11.23                | \$11.23              |
| Misc.                                  | \$0.00                 | \$0.00               |
| Total Revised Charge*                  | <u>\$68.42</u>         | <u>\$12.00</u>       |

Current Rate \$25.00

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METER READING RECHECK

|  | Utility Revised Charge | Staff Revised Charge |
|--|------------------------|----------------------|
| Field Materials                        | \$0.00                 | \$0.00               |
| Field Labor (0.79 Hours x \$ 39.42)    | \$30.99                | \$0.00               |
| Office Supplies                        | \$0.00                 | \$0.00               |
| Office Labor (0.33 Hours X \$ 33.22)   | \$11.07                | \$0.00               |
| Transportation (0.79 Hours X \$ 10.00) | \$7.86                 | \$7.86               |
| Misc.                                  | \$0.00                 | \$0.00               |
| Total Revised Charge*                  | <u>\$49.92</u>         | <u>\$8.00</u>        |
| Current Rate                           | \$25.00                |                      |

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SERVICE INVESTIGATION

|  | Utility Revised Charge | Staff Revised Charge |
|--|------------------------|----------------------|
| Field Materials                        | \$0.00                 | \$0.00               |
| Field Labor (1.16 Hours x \$ 47.51)    | \$55.32                | \$0.00               |
| Office Supplies                        | \$0.00                 | \$0.00               |
| Office Labor (0.23 Hours X \$ 33.22)   | \$7.75                 | \$0.00               |
| Transportation (1.16 Hours X \$ 10.00) | \$11.64                | \$11.64              |
| Misc.                                  | \$0.00                 | \$0.00               |
| Total Revised Charge*                  | <u>\$74.71</u>         | <u>\$12.00</u>       |
| Current Rate                           | \$25.00                |                      |

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SERVICE INVESTIGATION-AFTER HOURS

|   | Utility Revised Charge | Staff Revised Charge |
|---|------------------------|----------------------|
| Field Materials   | \$0.00                 | \$0.00               |
| Field Labor (1.16 Hours x \$ 71 .27)                    | \$82.98                | \$82.98              |
| Office Supplies   | \$0.00                 | \$0.00               |
| Office Labor (0.23 Hours X \$ 33.22)                    | \$7.75                 | \$0.00               |
| Transportation (1.16 Hours X \$ 10.00)                  | \$11.64                | \$11.64              |
| Misc. (Combined Communication After Hours Call Service) | \$8.97                 | \$8.97               |
| Total Revised Charge*                                   | <u>\$111.34</u>        | <u>\$104.00</u>      |
| Current Rate  | \$65.00                |                      |

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METER TEST REQUEST

|                                     | Utility Revised Charge | Staff Revised Charge |
|-------------------------------------|------------------------|----------------------|
| Field Materials                     | \$0.00                 | \$0.00               |
| Field Labor (1.75 Hours x \$ 41.05) | \$71.84                | \$0.00               |



|  |                |               |
|--|----------------|---------------|
| Office Supplies                        | \$0.00         | \$0.00        |
| Office Labor (0.13 Hours X \$ 33.22)   | \$4.43         | \$0.00        |
| Transportation (0.50 Hours X \$ 10.00) | \$5.00         | \$5.00        |
| Misc.                                  | \$0.00         | \$0.00        |
| Total Revised Charge*                  | <u>\$81.27</u> | <u>\$5.00</u> |
| Current Rate                           | \$50.00        |               |

METER INVESTIGATION

|   | Utility Revised Charge | Staff Revised Charge |
|---|------------------------|----------------------|
| Field Materials                         | \$0.00                 | \$0.00               |
| Field Labor (0.95 Hours x \$ 44.17)     | \$41.74                | \$0.00               |
| Office Supplies                         | \$0.00                 | \$0.00               |
| Office Labor (1.22 Hours X \$ 33.22)    | \$40.41                | \$0.00               |
| Transportation (0.945 Hours X \$ 10.00) | \$9.45                 | \$9.45               |
| Misc.                                   | \$0.00                 | \$0.00               |
| Total Revised Charge*                   | <u>\$91.60</u>         | <u>\$9.00</u>        |
| Current Rate                            | \$75.00                |                      |

RETURNED CHECK

|                                      | Utility Revised Charge | Staff Revised Charge |
|--------------------------------------|------------------------|----------------------|
| Field Materials                      | \$0.00                 | \$0.00               |
| Field Labor                          | \$0.00                 | \$0.00               |
| Office Supplies                      | \$0.00                 | \$0.00               |
| Office Labor (0.60 Hours X \$ 33.22) | \$19.93                | \$0.00               |
| Transportation                       | \$0.00                 | \$0.00               |
| Misc. (Bank Fee - Returned Check)    | \$12.00                | \$12.00              |
| Total Revised Charge*                | <u>\$31.93</u>         | <u>\$12.00</u>       |
| Current Rate                         | \$25.00                |                      |

SERVICE LINE INSPECTION

|  | Utility Revised Charge | Staff Revised Charge |
|--|------------------------|----------------------|
| Field Materials                          | \$0.00                 | \$0.00               |
| Field Labor (1.16 Hours x \$ 47.51)      | \$55.03                | \$0.00               |
| Office Supplies                          | \$0.00                 | \$0.00               |
| Office Labor (0.2333 Hours X \$ 33.22)   | \$7.75                 | \$0.00               |
| Transportation (1.1583 Hours X \$ 10.00) | \$11.58                | \$11.58              |
| Misc.                                    | \$0.00                 | \$0.00               |
| Total Revised Charge*                    | <u>\$74.36</u>         | <u>\$12.00</u>       |
| Current Rate                             | \$50.00                |                      |

| Tap-On Fee 5/8-Inch x 3/4-Inch Meter |                        |                      |
|--------------------------------------|------------------------|----------------------|
|                                      | Utility Revised Charge | Staff Revised Charge |
| Materials Expense                    | \$865.01               | \$865.01             |
| Service Pipe Expense                 | \$11.20                | \$11.20              |
| Installation Labor Expense           | \$434.07               | \$434.07             |
| Installation Equipment Expense       | \$161.69               | \$161.69             |
| Installation Miscellaneous Expense   | \$42.50                | \$42.50              |
| Overhead Expense                     | \$131.43               | \$131.43             |
| Administrative Expense               | \$64.65                | \$64.65              |
| Total Revised Charge*                | <u>\$1,710.55</u>      | <u>\$1,711.00</u>    |
| Current Rate                         | \$1,600.00             |                      |

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00061 DATED AUG 28 2024

The following rates and charges are recommended by Commission Staff based on the adjustments in Commission Staff's Report for the customers in the area served by Butler County Water System, Inc. All other rates and charges not specifically mentioned herein are recommended to remain the same.

Monthly Rates Phase 1

5/8-Inch Meter

|       |                 |         |            |
|-------|-----------------|---------|------------|
| First | 2,000 Gallons   | \$23.63 | Min. Bill  |
| Next  | 4,000 Gallons   | 0.00683 | per Gallon |
| Next  | 44,000 Gallons  | 0.00607 | per Gallon |
| Next  | 50,000 Gallons  | 0.00522 | per Gallon |
| Over  | 100,000 Gallons | 0.00435 | per Gallon |

1-Inch Meter

|       |                 |         |            |
|-------|-----------------|---------|------------|
| First | 5,000 Gallons   | \$44.86 | Min. Bill  |
| Next  | 1,000 Gallons   | 0.00683 | per Gallon |
| Next  | 44,000 Gallons  | 0.00607 | per Gallon |
| Next  | 50,000 Gallons  | 0.00522 | per Gallon |
| Over  | 100,000 Gallons | 0.00435 | per Gallon |

1 1/2-Inch Meter

|       |                 |         |            |
|-------|-----------------|---------|------------|
| First | 10,000 Gallons  | \$80.16 | Min. Bill  |
| Next  | 40,000 Gallons  | 0.00607 | per Gallon |
| Next  | 50,000 Gallons  | 0.00522 | per Gallon |
| Over  | 100,000 Gallons | 0.00435 | per Gallon |

2-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 16,000 Gallons  | \$117.66 | Min. Bill  |
| Next  | 34,000 Gallons  | 0.00607  | per Gallon |
| Next  | 50,000 Gallons  | 0.00522  | per Gallon |
| Over  | 100,000 Gallons | 0.00435  | per Gallon |

3-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 25,000 Gallons  | \$191.01 | Min. Bill  |
| Next  | 25,000 Gallons  | 0.00607  | per Gallon |
| Next  | 50,000 Gallons  | 0.00522  | per Gallon |
| Over  | 100,000 Gallons | 0.00435  | per Gallon |

4-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 30,000 Gallons  | \$264.25 | Min. Bill  |
| Next  | 20,000 Gallons  | 0.00607  | per Gallon |
| Next  | 50,000 Gallons  | 0.00522  | per Gallon |
| Over  | 100,000 Gallons | 0.00435  | per Gallon |

6-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 60,000 Gallons  | \$461.57 | Min. Bill  |
| Next  | 40,000 Gallons  | 0.00522  | per Gallon |
| Over  | 100,000 Gallons | 0.00435  | per Gallon |

8-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 80,000 Gallons  | \$585.45 | Min. Bill  |
| Next  | 20,000 Gallons  | 0.00522  | per Gallon |
| Over  | 100,000 Gallons | 0.00435  | per Gallon |

Private Fire Service Rates:

|               |            |
|---------------|------------|
| 1-1/2-Inch FD | \$20.33    |
| 2-Inch FD     | \$30.39    |
| 3-Inch FD     | \$78.94    |
| 4-Inch FD     | \$171.59   |
| 6-Inch FD     | \$395.29   |
| 8-Inch FD     | \$763.48   |
| 10-Inch FD    | \$1,322.05 |
| 12-Inch FD    | \$2,087.20 |

Monthly Rates Phase 2

5/8-Inch Meter

|       |                 |         |            |
|-------|-----------------|---------|------------|
| First | 2,000 Gallons   | \$26.92 | Min. Bill  |
| Next  | 4,000 Gallons   | 0.00781 | per Gallon |
| Next  | 44,000 Gallons  | 0.00693 | per Gallon |
| Next  | 50,000 Gallons  | 0.00597 | per Gallon |
| Over  | 100,000 Gallons | 0.00497 | per Gallon |

1-Inch Meter

|       |                 |         |            |
|-------|-----------------|---------|------------|
| First | 5,000 Gallons   | \$51.17 | Min. Bill  |
| Next  | 1,000 Gallons   | 0.00781 | per Gallon |
| Next  | 44,000 Gallons  | 0.00693 | per Gallon |
| Next  | 50,000 Gallons  | 0.00597 | per Gallon |
| Over  | 100,000 Gallons | 0.00497 | per Gallon |

1 1/2-Inch Meter

|       |                 |         |            |
|-------|-----------------|---------|------------|
| First | 10,000 Gallons  | \$91.43 | Min. Bill  |
| Next  | 40,000 Gallons  | 0.00693 | per Gallon |
| Next  | 50,000 Gallons  | 0.00597 | per Gallon |
| Over  | 100,000 Gallons | 0.00497 | per Gallon |

2-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 16,000 Gallons  | \$134.21 | Min. Bill  |
| Next  | 34,000 Gallons  | 0.00693  | per Gallon |
| Next  | 50,000 Gallons  | 0.00597  | per Gallon |
| Over  | 100,000 Gallons | 0.00497  | per Gallon |

3-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 25,000 Gallons  | \$217.86 | Min. Bill  |
| Next  | 25,000 Gallons  | 0.00693  | per Gallon |
| Next  | 50,000 Gallons  | 0.00597  | per Gallon |
| Over  | 100,000 Gallons | 0.00497  | per Gallon |

4-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 30,000 Gallons  | \$301.40 | Min. Bill  |
| Next  | 20,000 Gallons  | 0.00693  | per Gallon |
| Next  | 50,000 Gallons  | 0.00597  | per Gallon |
| Over  | 100,000 Gallons | 0.00497  | per Gallon |

6-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 60,000 Gallons  | \$526.44 | Min. Bill  |
| Next  | 40,000 Gallons  | 0.00597  | per Gallon |
| Over  | 100,000 Gallons | 0.00497  | per Gallon |

8-Inch Meter

|       |                 |          |            |
|-------|-----------------|----------|------------|
| First | 80,000 Gallons  | \$667.73 | Min. Bill  |
| Next  | 20,000 Gallons  | 0.00597  | per Gallon |
| Over  | 100,000 Gallons | 0.00497  | per Gallon |

Private Fire Service Rates:

|               |            |
|---------------|------------|
| 1-1/2-Inch FD | \$23.32    |
| 2-Inch FD     | \$34.86    |
| 3-Inch FD     | \$90.54    |
| 4-Inch FD     | \$196.81   |
| 6-Inch FD     | \$453.40   |
| 8-Inch FD     | \$875.71   |
| 10-Inch FD    | \$1,516.39 |
| 12-Inch FD    | \$2,394.02 |

Nonrecurring Charges

|                                   |          |
|-----------------------------------|----------|
| Service Connection                | \$8.00   |
| Service Connection-After Hours    | \$57.00  |
| Delinquent Service                | \$12.00  |
| Meter Reading Recheck             | \$8.00   |
| Service Investigation             | \$12.00  |
| Service Investigation-After Hours | \$104.00 |
| Meter Test Request                | \$5.00   |
| Meter Investigation               | \$9.00   |
| Returned Check                    | \$12.00  |
| Service Line Inspection           | \$12.00  |

Tap-On Fee

|                           |            |
|---------------------------|------------|
| 5/8-Inch x 3/4-Inch Meter | \$1,711.00 |
|---------------------------|------------|

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