

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LAKE VILLAGE)	CASE NO.
WATER ASSOCIATION, INC. FOR A RATE)	2022-00068
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On March 4, 2022, Lake Village Water Association, Inc. (Lake Village Water) filed its application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. Lake Village Water filed this proceeding in compliance with the final Order in Case No. 2021-00020.¹ In that proceeding, Lake Village Water was ordered to file an application by March 9, 2022, for either a traditional adjustment in rates or for an alternative rate adjustment (ARF) to ensure its revenue is sufficient to support adequate and reliable service.

In its application, Lake Village Water requested water rates that would increase its annual revenues from water sales by \$184,632, or a 12.60 percent.²

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 21, 2022, and was amended by Commission's July 28, 2022 Order, which, among other things, required the Commission Staff to file a report containing its findings regarding Lake Village Water's application. Lake Village

¹ See Case No. 2021-00020, *Electronic Application of the Lake Village Water Association, Inc. to Issue Securities in the Approximate Principal Amount of \$2,100,000 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 Mar. 9, 2021).

² Application, Attachment 4, unnumbered page 2, Schedule of Adjusted Operations.

Water responded to three requests for information from Commission Staff. The Commission Staff's Report was issued on August 1, 2022, and Lake Village Water filed its response to Commission Staff's Report on August 10, 2022.

In the Commission Staff's Report, Commission Staff found that Lake Village Water's adjusted test-year operations support an overall revenue requirement of \$1,706,203 and that an annual revenue increase of \$172,178, or 11.71 percent to the retail base rates, is necessary to generate the overall revenue requirement. In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates. Commission Staff also recommended that Lake Village Water be allowed to assess a monthly water loss reduction surcharge of \$1.61 per active meter for 48 months.

In its August 10, 2022 comments, Lake Village Water disagreed with Commission Staff's removal of labor expenses from its nonrecurring charges, but did not contest Commission Staff's adjustments to its nonrecurring charges in this case.³ Lake Village Water noted that although Commission Staff recommended a revenue increase of \$172,178, there was a different reference to allocating a revenue increase of \$220,382 on page 4 of the Commission Staff Report that did not affect any other portion of the Commission Staff's Report.⁴ The Commission acknowledges that the \$220,382 reference was an inadvertent typographical error and concurs with Lake Village Water that the typographical error does not affect Commission Staff's recommendations. Finally, Lake Village Water stated that the rate Appendix in the Commission Staff's

³ Lake Village Water's Response to Commission Staff's Report, Item 1.

⁴ Lake Village Water's Response to Commission Staff's Report, Item 2.

Report's did not include Lake Village Water's proposed \$895 meter connection/tap-on charge and requested that the charge be included in the final order.⁵ Lake Village Water concurred with the remainder of Commission Staff's findings and waived their right to request an informal conference or hearing.⁶

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and to the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Lake Village Water is allowed to charge its customers "only 'fair, just and reasonable rates.'"⁷ Further, Lake Village Water bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

UNACCOUNTED-FOR WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. The Commission Staff noted that Lake Village Water reported a water loss of 22.55 percent in its 2020 Annual Report.⁸ At a 22.55 percent water loss, the annual cost of water loss in excess of 15.00 percent is \$42,819 and the total annual cost of water loss to Lake Village Water is \$127,866, as calculated in the table below.

⁵ Lake Village Water's Response to Commission Staff's Report, Item 3.

⁶ Lake Village Water's Response to Commission Staff's Report, Item 4-5.

⁷ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Pub. Serv. Comm'n v. Com. of Kentucky v. Dewit Water District*, 720 S.W.2d 725 (Ky. 1986).

⁸ 2020 Annual Report at 57 and 58.

	<u>Water</u>	<u>Electricity</u>	<u>Total</u>
Test-Year Water Purchases and Pumping Costs	\$ 552,238	\$ 14,885	\$ 567,123
Multiplied by: Water Loss In Excess of 15 Percent	<u>(7.55%)</u>	<u>(7.55%)</u>	<u>(7.55%)</u>
Cost of Line loss in Excess of the 15% Limit	<u>\$ (41,695)</u>	<u>\$ (1,125)</u>	<u>\$ (42,820)</u>
Test-Year Water Purchases and Pumping Costs	\$ 552,238	\$ 14,885	\$ 567,123
Multiplied by: Test Year Water Loss Percentage	<u>(22.55%)</u>	<u>(22.55%)</u>	<u>(22.55%)</u>
Total Cost of Line Loss	<u>\$ (124,530)</u>	<u>\$ (3,357)</u>	<u>\$ (127,886)</u>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. In recognition of this, Lake Village Water requested to implement a water loss reduction surcharge in their application as the Commission strongly encourages utilities to pursue reasonable actions to reduce its unaccounted-for water loss.

BACKGROUND

Lake Village Water, a water association organized pursuant to KRS Chapter 273, provides water service to approximately 2,275 residential and commercial customers in Boyle and Mercer counties, Kentucky.⁹ A review of the Commission’s records indicates that Lake Village Water last sought an adjustment of rates through general base rate case procedure in Case No. 2013-00401.¹⁰

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of Lake Village Water’s existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

⁹ *Annual Report of Lake Village Water Association to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

¹⁰ Case No. 2013-00401, *Application of the Lake Village Water Association, Inc., for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC Feb. 2, 2004).

SUMMARY OF REVENUES AND EXPENSES

The Commission Staff's Report summarizes Lake Village Water's pro forma income statement as follows:¹¹

	Test-Year Operations	Commission Staff's	
		Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 1,487,803	\$ 45,503	\$ 1,533,306
Operating Expenses	1,568,692	(152,305)	1,416,387
Net Utility Operating Income	<u>\$ (80,889)</u>	<u>\$ 197,808</u>	<u>\$ 116,919</u>

REVIEW AND MODIFICATIONS TO COMMISSION STAFF'S FINDINGS

Lake Village Water's proposed adjustments to revenues and expenses reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the findings contained in the Commission Staff's Report, with one modification to approve the Meter Connection/Tap-on Charge that was omitted from the Appendix in the Commission Staff's Report. The Commission has no further modifications.

REVENUE REQUIREMENTS

Billing Analysis. Lake Village Water provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year,¹² as well as billing adjustments and leak adjustments. Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$1,469,825 for all retail customers is

¹¹ See Appendix B for a complete pro forma income statement.

¹² Lake Village Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Mar. 21, 2022), Item 9a-d.

an accurate representation of the normalized test-year revenue from water sales.¹³ In the Commission Staff's Report, Commission Staff recommended an increase of \$25,798 to Lake Village Water's test-year Water Sales Revenue.¹⁴

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff discussed Lake Village Water's Nonrecurring Charges in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. Commission Staff recommended revised Nonrecurring Charges and a reduction to Other Water Revenues in the amount of \$2,019, to reflect the change in the nonrecurring charges.¹⁵ In response to the Commission Staff's Report, Lake Village Water pointed out that the adjusted Meter Connection/Tap-On Charge of \$895 was not included in the Appendix.¹⁶ The Commission finds that the Meter Connection/Tap-On Charge of \$895, which was omitted in Commission Staff's Report, is approved and is included in Appendix A to this Order.

The Commission continues to follow its previous decisions regarding Nonrecurring Charges: Personnel are paid during normal business hours and their salaries are recovered through rates.¹⁷ Allowing a utility to recover the same labor expense twice is not fair, just and reasonable. Therefore, estimated labor costs previously included in

¹³ Commission Staff's Report at 9.

¹⁴ Commission Staff's Report at 9, Adjustment A.

¹⁵ Commission Staff's Report at 9–10, Adjustment B.

¹⁶ Lake Village Water's Response to Commission Staff's Report, Item 3.

¹⁷ Case No.2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

determining the amount of Nonrecurring Charges shall be eliminated from the charges. The Commission finds that the calculation of Nonrecurring Charges shall be revised and only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours. The perceived unfairness from removal of these costs does not outweigh the mismatch of costs and revenues.

For the reason discussed above, the nonrecurring charges shall be reduced by the estimated labor costs stated in the cost justification sheets. The Commission finds the revised nonrecurring charges set out in Appendix A and the decrease of \$2,019 to Other Water Revenue to be reasonable.

Forfeited Discounts. In the Commission Staff's Report, Commission Staff recommended an increase of \$16,724 to Lake Village Water's test-year Forfeited Discount revenues of \$3,116 to normalize late payment penalties to \$19,840, or the three-year average from 2017 through 2019 to account for the moratorium regarding the collection of late payment fees due to the COVID-19 pandemic.¹⁸ The Commission finds

¹⁸ Commission Staff's Report at 10, Adjustment C.

that this adjustment meets the ratemaking criteria of being known and measurable,¹⁹ is reasonable, and is accepted.

Management Fee. In the Commission Staff's Report, Commission Staff recommended accepting Lake Village Water's proposed increase to Miscellaneous Service Revenues of \$5,000.²⁰ Lake Village Water provides management services to the Mercer County Sanitation District. On July 1, 2021, parties entered into a new management contract and agree to increase the annual management fee by \$5,000, from \$35,000 to \$40,000.²¹ The Commission finds that this adjustment is a known and measurable change to Management Fees, is reasonable, and is accepted.

Employee Salaries and Wages. In the Commission Staff's Report, Commission Staff recommended that the Commission increase Lake Village Water's test-year Employee Salaries and Wages expense by \$24,873.²² Commission Staff's adjustment is based upon Lake Village Water's current staff level of seven full-time employees and the 2021 employee wage rates.²³ The Commission finds that Commission Staff's

¹⁹ See, 807 KAR 5:001, Section 16.1.(a).; Case No. 2001-00211, *The 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 Therefor; (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); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

²⁰ Commission Staff's Report at 10–11, Adjustment D.

²¹ Commission Staff's Report at 10–11.

²² Commission Staff's Report at 11–12, Adjustment E.

²³ Commission Staff's Report at 11–12.

recommended adjustment to Employee Salaries and Wages expense of \$24,873 meets the ratemaking criteria of being known and measurable, is reasonable, and is accepted.

Tap-on Fees. In the Commission Staff's Report, Commission Staff recommended the Commission accept Lake Village Water's adjustments to remove the cost of new meters that were installed in the test year.²⁴ By substituting the tap-on fees for the actual cost to install the meters, Lake Village Water proposed to reduce Salaries and Wages - Employees expense by 30 percent of the collected tap-on fees, or \$3,240, and the remaining 70 percent of the collected tap-on fees, or \$7,560, from Materials and Supplies expense.²⁵ The Commission finds that Lake Village Water's proposed adjustments meet the ratemaking criteria of being known and measurable, are reasonable, and are accepted.

Employee 401(k) Pension. In the Commission Staff's Report, Commission Staff recommended that the Commission increase Employee Pensions and Benefits expense by \$938 to reflect applying the 10 percent employer 401(k) contribution rate to the pro forma employee salaries and wages expense for full-time employees of \$388,327.²⁶ Based on the evidence of record, the Commission finds the adjustment proposed by Commission Staff accurately reflects the level of retirement expense that will increase as a result of the pro forma Employee Salary and Wage expense, is reasonable, and is accepted.

²⁴ Commission Staff's Report at 12–13, Adjustment F.

²⁵ Commission Staff's Report at 12–13.

²⁶ Commission Staff's Report at 13, Adjustment G.

Employee Benefits. In the Commission Staff's Report, Commission Staff recommended a decrease to Lake Village Water's Employee Pensions and Benefits expense of \$8,507.²⁷ In 2021, the monthly Anthem employee health insurance premium of \$455 included both vision and dental coverage for each full-time employee.²⁸ Commission Staff's recommended adjustment reflects reducing the employee insurance premiums paid by Lake Village Water from 100 percent to 79 percent.²⁹ The Commission finds that the adjustment proposed by Commission Staff meets prior precedent regarding employee pensions and benefits,³⁰ is known and measurable, and is accepted.

Excess Water Loss. Lake Village Water's test year water loss was 22.55 percent. Commission regulation 807 KAR 5:066 Section 6(3), limits water loss to 15 percent for ratemaking purposes unless the Commission finds an alternative level is reasonable. In the Commission Staff's Report, Commission Staff recommended that the Commission reduce Purchased Water expense by \$41,695 and Purchased Power expense by \$1,125 to eliminate the costs attributable to Lake Village Water's excessive water loss.³¹ The Commission finds the adjustments are a known and measurable change to Purchased Water and Purchased Power, are reasonable, and are accepted.

²⁷ Commission Staff's Report at 13–15, Adjustment H.

²⁸ Commission Staff's Report at 13–15.

²⁹ The Commission Staff's Report stated that the reduction to single health insurance premiums was 22 percent, but the calculation in the schedule on page 15 of the Commission Staff's Report reduced the health insurance premiums by 21 percent.

³⁰ See Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates* (Ky. PSC Feb. 6, 2017).

³¹ Commission Staff's Report at 15–16, Adjustment I.

Depreciation. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Lake Village Water's proposed adjustment to decrease test-year Depreciation expense of \$311,352 by \$120,388 for a pro forma Depreciation expense of \$190,964.³² Lake Village Water's adjustment is consistent with Commission precedent of using the depreciation life ranges contained in the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study) to evaluate the depreciation lives used by the water utilities under its jurisdiction.³³ When no evidence exists to support a specific life that is inside or outside of the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC Study depreciation ranges to depreciate water assets.³⁴

The Commission finds that Lake Village Water's proposed depreciation adjustment is reasonable and is accepted as it is consistent with Commission precedent. The Commission further finds that Lake Village Water shall use the midpoint of the depreciable lives of the NARUC Study ranges to depreciate water plant assets for accounting purposes in all future reporting periods. Lake Village Water shall not make an adjustment to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

³² Commission Staff's Report at 16–17, Adjustment J.

³³ See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); and Case No. 2020-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021).

³⁴ See Case No. 2020-00290 *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction* (Ky. PSC Sept. 2, 2021).

Payroll Taxes. In the Commission Staff's Report, Commission Staff recommended that Lake Village Water's test-year Payroll Tax expense be increased by \$4,399 to reflect the pro forma Salaries and Wages changes.³⁵ Based on the evidence of record, the Commission finds that the adjustment proposed by Commission Staff accurately reflects the level of Lake Village Water's payroll tax expense calculated using the pro forma Employee Salary and Wage expense the Commission found reasonable and is accepted.

Based on the Commission's findings discussed above, the following table summarizes Lake Village Water's adjusted Pro Forma operations:³⁶

	Commission Staff's Pro Forma Operations	Commission Order	
		Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 1,533,306	\$ 0	\$ 1,533,306
Operating Expenses	1,416,387	0	1,416,387
Net Utility Operating Income	\$ 116,919	\$ 0	\$ 116,919

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations made in this Order, Lake Village Water requires an increase in revenues of \$172,178, or 11.71 percent³⁷ above the pro forma present rate revenues, as calculated below. This increase is required for Lake Village Water to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 1,416,387
Plus: Average Annual Debt Service	241,513
Debt Service Coverage Requirement	48,303
Overall Revenue Requirement	1,706,203

³⁵ Commission Staff's Report at 19–20, Adjustment K.

³⁶ See Appendix B for a complete pro forma income statement.

³⁷ Commission Staff's Report at 18.

Less: Other Operating Revenue	(63,481)
Interest Income	(720)
Revenue Required from Water Sales	1,642,002
Less: Normalized Revenues from Water Sales	(1,469,825)
Required Revenue Increase	\$ 172,178
Percentage Increase	11.71%

WATER LOSS REDUCTION SURCHARGE

In the Commission Staff’s Report, Commission Staff recommended that the Commission approve a Water Loss Reduction Surcharge of \$1.61 per active meter per month for 48 months to help lower system losses to more acceptable levels.³⁸ The surcharge would produce \$42,805 annually, and \$171,220 in total collections over the four-year period.³⁹ The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3).

The use of a surcharge is consistent with prior Commission action in cases involving water districts with excessive unaccounted-for water loss.⁴⁰ In establishing water-loss surcharges, the Commission recognized that the adjustments required to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary

³⁸ Commission Staff’s Report at 6–7.

³⁹ \$1.61 (Monthly Water Loss Reduction Surcharge) x 26,587 (Annual Number of Bills) = \$42,805 (Annual Water Loss Reduction Surcharge Collections) x 4 (Four Year Collection Period) = \$171,220.

⁴⁰ See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges* (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2020).

action to focus on its leak detection and repair.⁴¹ Using a surcharge to fund a water district's water loss reduction project allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge, and public confidence in the water district's use of those funds.⁴² In its report entitled, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* that was fully incorporated in the final Order in Case No. 2019-00041, Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.⁴³

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Lake Village Water to recover the cost of its efforts in water leak detection and repair in order to reduce the increased expense and lost revenue from unaccounted-for water loss.⁴⁴ The Commission finds that a monthly water loss reduction surcharge of \$1.61 per active meter over 48 months is approved. Lake Village Water is restricted to expending any funds collected under the surcharge subject to authorization by the Commission.

⁴¹ See Case No. 2018-00311 *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021) at 3.

⁴² See Case No. 2018-00429 *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019) at 3.

⁴³ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

⁴⁴ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

Lake Village Water shall file a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, and provides a detailed spending plan for the proceeds of the requested surcharge. The proceeds from the surcharge shall be kept in a separate, interest-bearing account.

The proceeds of Lake Village Water's Water Loss Reduction Surcharge shall be used solely to fund Lake Village Water's unaccounted-for water loss reduction efforts as set forth in the Commission Staff's Report.

RATE DESIGN

Lake Village Water proposed to increase all of its monthly retail water service rates evenly across the board by approximately 12.60 percent. Lake Village Water has not performed a cost of service study (COSS). Lake Village Water stated that it did not complete a COSS because there have not been any material changes in customer usage patterns to warrant a COSS.⁴⁵

The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when no evidence exists in the record demonstrating that this method is unreasonable and in the absence of a COSS. In the Commission Staff's Report, Commission Staff followed the method proposed by Lake Village Water and allocated Commission Staff's calculated revenue increase across the board to Lake Village Water's monthly retail water service rates.

In an effort to avoid a significant hardship on Lake Village Water's customers, the Commission finds that a two-year phase-in approach is appropriate. Although applying

⁴⁵ Lake Village Water's Response to Staff's First Request, Item 5.

a two-year phase-in will not allow for depreciation reserves to be fully funded, it will allow for adequate revenues to cover expenses and debt service and a portion of the depreciation reserves. The rates set forth in Appendix A to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable and will produce sufficient revenues from water sales to recover the \$172,178 Revenue Required from Rates, an approximate 11.71 percent increase. The rates in Phase 1, including the monthly water loss surcharge of \$1.61, will increase a typical residential customer's monthly water bill from \$47.54 to \$51.92, an increase of \$4.38, or approximately 9.21 percent.⁴⁶ The rates in Phase 2 will increase a typical residential customer's monthly water bill from Phase 1 rates of \$51.92 to \$54.70, an increase of \$2.78, or approximately 5.35 percent.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report and discussed above are supported by the evidence of record and are reasonable. The Commission has historically used a Debt Service Coverage (DSC) method to calculate the revenue requirement for water districts and associations with outstanding long-term debt. Therefore, applying the DSC method to Lake Village Water's pro forma operations results in an Overall Revenue Requirement of \$1,706,203, a required revenue from water sales of \$1,642,002, and increase in revenue from water sales of a \$172,178 or 11.71 percent. The Commission further finds that allocating the

⁴⁶ The typical residential customer uses approximately 4,000 gallons a month.

calculated revenue increase across the board to Lake Village Water's monthly water service rates and to phase this increase over two years to be fair, just and reasonable.

The Commission further finds that Lake Village Water is authorized to assess a Water Loss Reduction Surcharge of \$1.61 per active meter per month for 48 months, or until \$171,220 has been assessed, whichever occurs first. The Commission shall open a separate case to monitor the surcharge collection and expenses with the following conditions:

1. Within 120 days of the date of this Order, Lake Village Water shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provided a detailed spending plan for the proceeds of a surcharge;

2. Lake Village Water shall deposit surcharge collection in a separate inter-bearing account;

3. Lake Village Water shall file monthly activity reports with the Commission that include a statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, a description of the purpose, and invoice supporting each payment;

4. Lake Village Water shall file monthly water loss reports with the Commission;

5. Surcharge proceeds shall not be used to reimburse Lake Village Water for unaccounted-for water loss reduction expense incurred prior to the date of this Order;

6. Lake Village Water's surcharge and water loss detection and repair program is subject to annual Commission reviews that will examine the progress of the water loss detection and repair program and expenditures made with surcharge proceeds and consider adjustments to the program and the surcharge amount; and

7. Lake Village Water's failure to comply with any conditions attached to the assessment of the surcharge will result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of the expenses and projects approved by the Commission.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Commission Staff's Report are adopted and are incorporated by reference into this Order.

2. The water service rates proposed by Lake Village Water are denied.

3. Phase 1 rates set forth in Appendix A to this Order are approved for water services rendered by Lake Village Water on and after the date of service of this Order.

4. Phase 2 rates set forth in Appendix A to this Order are approved for water services rendered by Lake Village Water one year following the date of service this Order.

5. One month prior to the effective date of the Phase 2 rates, Lake Village Water shall notify its customers of the implementation of the Phase 2 rates by publishing one-time notice of the increase in a newspaper of general circulation in its territory or placing an insert in bills rendered to its customers.

6. Within 45 days of publishing notice required in ordering paragraph 5, Lake Village Water shall file proof of publication of the notice to the Commission as required pursuant to 807 KAR 5:076, Section 5(3).

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

8. Lake Village Water shall use the midpoint of the depreciable lives of the NARUC Study ranges, as recommended by Commission Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. Lake Village Water shall not make adjustments to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

9. Any documents filed in the future pursuant to ordering paragraph 6 shall reference this case number and shall be retained in the post-case correspondence file.

10. Lake Village Water is authorized to assess a monthly Water Loss Reduction Surcharge of \$1.61 per meter per month for 48 months, or until \$171,220 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction efforts as set forth in the Commission Staff's Report, subject to the conditions set forth in ordering paragraph 11.

11. The Commission shall open a separate proceeding, Case No. 2022-00325⁴⁷ to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

a. Within 120 days of the date of service of this Order, Lake Village Water shall file with the Commission a qualified infrastructure improvement plan, including

⁴⁷ Case No. 2022-00325, *Electronic Lake Village Water Association, Inc. Unaccounted-for Water Loss Reduction Plan, Surcharge and Monitoring*.

a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Lake Village Water shall deposit surcharge collections in a separate interest-bearing account. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Lake Village Water shall file with the Commission a monthly activity report that includes a statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, a description of the purpose, and invoices supporting each payment.

c. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Lake Village Water shall file a monthly water loss report with the Commission.⁴⁸

d. Lake Village Water shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

e. Lake Village Water shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

f. Lake Village Water shall debit monthly billings for the surcharge to customers' accounts receivable and credit the contribution account.

⁴⁸ The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

g. When Lake Village Water collects the surcharge from the customers, it shall debit special funds and credit the customer account.

h. One year after the date of service of this Order and annually thereafter, Lake Village Water shall file in Case No. 2022-00325 a schedule of the estimated and actual progress of the water loss detection and repair program, and estimated and actual expenditures made with surcharge proceeds, for the purpose of evaluating whether adjustments to the program or to the surcharge amount are required.

12. Lake Village Water's failure to comply with the conditions set forth in ordering paragraph 11 will result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

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

PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00068 DATED OCT 04 2022

The following rates and charges are prescribed for the customers in the area served by Lake Village Water Association, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates
Phase 1

5/8- x 3/4-Inch Meter

First	2,000	Gallons	\$	28.29	Minimum Bill
Next	18,000	Gallons		0.01101	Per Gallon
Over	20,000	Gallons		0.00889	Per Gallon

Wholesale Rates

North Point Training Center	0.00426	Per Gallon
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<u>Water Loss Reduction Surcharge</u>	\$	1.61 per month
48-month limitation or until approximately \$171,220 is collected		

Phase 2

To be implemented on year following Phase 1

5/8- x 3/4-Inch Meter

First	2,000	Gallons	\$	29.85	Minimum Bill
Next	18,000	Gallons		0.01162	Per Gallon
Over	20,000	Gallons		0.00938	Per Gallon

Wholesale Rates

North Point Training Center	0.00450	Per Gallon
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<u>Water Loss Reduction Surcharge</u>	\$	1.61 per month
48-month limitation or until approximately \$171,220 is collected		

Special Nonrecurring Charges

Connection/Turn-on Charge	\$ 7.00
Customer Request Disconnect	\$ 7.00
Field Collection Charge	\$ 7.00
Reconnection Charge	\$ 14.00
Meter Test Charge	\$ 7.00
Return Check Charge	\$ 10.00
Late Payment Penalty	10%

Meter Connection / Tap-on Charges

5/8 Inch X 3/4 Inch	\$ 895.00
All larger Meters	Actual Cost

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00068 DATED OCT 04 2022

Detailed Pro Forma Income Statement

	Test Year Operations	Commission Staff Report		Commission Order	
		Pro Forma Adjustments	Pro Forma Operations	Pro Forma Adjustments	Pro Forma Operations
Rating Revenues:					
Total Metered Sales	\$ 1,444,027	\$ 25,798	\$ 1,469,825		\$ 1,469,825
Other Water Revenues:					
Misc. Service Revenues	43,776	(2,019)			
		16,724			
		5,000	63,481		63,481
I Operating Revenues	1,487,803	45,503	1,533,306	0	1,533,306
Rating Expenses:					
Operation and Maintenance:					
Salaries and Wages - Employees	363,454	24,873			
		(3,240)	385,087		385,087
Salaries and Wages - Officers	23,850		23,850		23,850
Employee Pensions and Benefits	74,829	938			
		(8,507)	67,260		67,260
Purchased Water	552,238	(41,695)	510,543		510,543
Materials and Supplies	70,450	(7,560)	62,890		62,890
Contractual Services	14,961		14,961		14,961
Insurance - Gen. Liab. & Workers Comp.	11,619		11,619		11,619
Bad Debt	19,172		19,172		19,172
Insurance Other	16,164		16,164		16,164
Bad Debt	4,577		4,577		4,577
Miscellaneous Expenses	76,063	(1,125)	74,938		74,938
Total Operation and Maintenance Expenses	1,227,377	(36,316)	1,191,061		1,191,061
Depreciation Expense	311,352	(120,388)	190,964		190,964
Taxes Other Than Income	29,963	4,399	34,362		34,362
I Operating Expenses	1,568,692	(152,305)	1,416,387	0	1,416,387
Utility Operating Income	\$ (80,889)	\$ 197,808	\$ 116,919	\$ -	\$ 116,919

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*Mike D Sanford
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