

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LEVEE ROAD	)	CASE NO.
WATER ASSOCIATION, INC. FOR A RATE	)	2024-00067
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

ORDER

On May 1, 2024,<sup>1</sup> Levee Road Water Association, Inc. (Levee Road 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> Levee Road Water used the calendar year ended December 31, 2022, as the basis for its application. The application was filed pursuant to the Commission’s Order in Case No. 2021-00015 which required Levee Road Water to file an application for an adjustment of its base rates by June 24, 2022.<sup>3</sup> Levee Road Water did not request an extension to file its application late.

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<sup>1</sup> Levee Road Water tendered its application on April 11, 2024. By letter dated April 18, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on May 1, 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> Case No. 2021-00015, *Electronic Application of Levee Road Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC June 24, 2021), ordering paragraph 1.

Levee Road Water's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 1992-00007.<sup>4</sup> Since that matter, Levee Road Water has only adjusted its rates pursuant to purchased water adjustments (PWA), or in conjunction with an application for a Certificate of Public Convenience and Necessity (CPCN) and pursuant to KRS 278.023 financing cases.<sup>5</sup>

In its application, Levee Road Water requested rates that would increase its annual water sales revenue by \$61,588 or 14.13 percent.<sup>6</sup>

To ensure an orderly review of the application, the Commission established a procedural schedule by Order dated May 20, 2024. Levee Road Water responded to two requests for information from Commission Staff and provided supplemental responses on July 2, 2024, and July 30, 2024.<sup>7</sup>

On August 28, 2024, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Levee Road Water's requested rate adjustment. Commission Staff recommended that Levee Road Water's adjusted test-year operations support a total revenue requirement of \$495,429, and that an annual revenue increase of \$58,782, or 13.48 percent, to pro forma present rate revenues is

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<sup>4</sup> Case No. 1992-00007, *The Application of Levee Road Water Association for Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities*, (Ky. PSC July 10, 1992).

<sup>5</sup> Case No. 2021-00015, *Electronic Application of Levee Road Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC June 24, 2021).

<sup>6</sup> Application, Attachment 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Revenue Requirements Table.

<sup>7</sup> Levee Road Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 19, 2024). Supplemental information was filed to this request on July 2, 2024. Levee Road Water's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 17, 2024). Supplemental filings with additional information were made on July 30, 2024.

necessary to generate the Overall Revenue Requirement.<sup>8</sup> 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.<sup>9</sup>

On September 11, 2024, Levee Road Water filed its response to Commission Staff's Report.<sup>10</sup> Levee Road Water stated that it does not agree with the removal of certain labor expenses from nonrecurring charges, but the District did not wish to contest that adjustment.<sup>11</sup> Levee Road Water concurred with the remainder of findings in Commission Staff's Report,<sup>12</sup> and waived its right to request an informal hearing.<sup>13</sup> The case now stands submitted for a decision by the Commission.

#### LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."<sup>14</sup>

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<sup>8</sup> Commission Staff's Report at 24.

<sup>9</sup> Commission Staff's Report at 5.

<sup>10</sup> Levee Road Water's Response to Commission Staff's Report (filed Sept 11, 2024).

<sup>11</sup> Levee Road Water's Response to Commission Staff's Report.

<sup>12</sup> Levee Road Water's Response to Commission Staff's Report.

<sup>13</sup> Levee Road Water's Response to Commission Staff's Report.

<sup>14</sup> *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

### BACKGROUND

Levee Road Water is a water utility organized pursuant to KRS Chapter 273 that owns and operates a distribution system through which it provides retail water service to approximately 877 residential customers and 12 commercial customers that reside in Montgomery County, Kentucky.<sup>15</sup>

### UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Levee Road Water reported a water loss of 19.8917 percent.<sup>16</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. Levee Road Water purchases its water from Mount Sterling Water and Sewer Commission.<sup>17</sup> The table below shows that the 2022 total annual cost of water loss to Levee Road Water is \$44,914, while the annual cost of water loss in excess of 15 percent is \$11,045.

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<sup>15</sup> *Annual Report of Nebo District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

<sup>16</sup> 2022 Annual Report at 57.

<sup>17</sup> 2022 Annual Report at 54.

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 219,627	\$ 6,162	\$ 225,789
Multiply by: Total Water Loss Percent	19.8917%	19.8917%	19.8917%
Total Cost of Water Loss	\$ 43,688	\$ 1,226	\$ 44,914

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 219,627	\$ 6,162	\$ 225,789
Multiply by: Water Loss in Excess of 15 Percent	4.8917%	4.8917%	4.8917%
Cost of Excess Water Loss	\$ 10,744	\$ 301	\$ 11,045

### TEST PERIOD

The calendar year ended December 31, 2022, was used as the test year to determine the reasonableness of Levee Road Water's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

### SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Levee Road Water's pro forma income statement as follows.

Description	2022 Test Year	Total Proposed Adjustment	Commission Staff's Report Pro Forma
Total Operating Revenues	\$ 447,639	\$ (1,135)	\$ 446,504
Total Operating Expenses ( )	(438,121)	7,762	(430,359)
Net Operating Income	9,518	6,627	16,145
Interest Income	54	-	54
Income Available to Service Debt	\$ 9,572	\$ 6,627	\$ 16,199

REVIEW AND MODIFICATION OF  
COMMISSION STAFF'S RECOMMENDATIONS

Levee Road Water proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. Upon review of Commission Staff's Report, the Commission identified five additional necessary adjustments. First, Purchased Water Expense, subsequent to the issuance of Commission Staff's Report was increased due to a wholesale rate increase from Mount Sterling.<sup>18</sup> This resulted in an \$8,977 increase to the Revenue Requirement. Second, as a result of the increase from Mount Sterling, the disallowed Purchased Water Expense for water loss in excess of 15 percent was also increased, resulting in a decrease to the Revenue Requirement of \$439. Third, when Commission Staff removed the expenses related to the installation of new meters, it did not include the labor expenses in the calculation, which resulted in a decrease to the Revenue Requirement of \$2,889. Fourth, as a result of the inclusion of Labor expenses, Depreciation Expense was increased, resulting in an increase to the Revenue Requirement of \$68. Finally, Amortization expense was reduced by \$2,700 which resulted in a reduction to the Revenue Requirement of \$2,700. The sum of the five adjustments resulted in a net increase to the Revenue Requirement of \$3,017 as shown in the table below.

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<sup>18</sup> TFS2024-00329 (Ky. PSC Sept 1, 2024), the tariff was accepted for filing by the Commission by letter dated August 29, 2024.

Description	Test Year	Total Proposed Adjustments	Commission Staff's Pro Forma	Commission Proposed Adjustments	Commission Approved Pro Forma
<b>Operating Revenues</b>					
Total Metered Retail Sales	\$ 444,032	\$ (8,048)	\$ 435,984		\$ 435,984
Other Water Revenues:					
Forfeited Discounts		9,911	9,911		9,911
Other Water Revenues	3,607	(2,998)	609		609
<b>Total Operating Revenues</b>	<b>447,639</b>	<b>(1,135)</b>	<b>446,504</b>	<b>-</b>	<b>446,504</b>
<b>Operating Expenses</b>					
Operation and Maintenance					
Salaries and Wages - Employees	40,038	7,854	47,892		47,892
Salaries and Wages - Officers	12,350	-	12,350		12,350
Employee Pensions and Benefits	427	(427)	-		
Purchased Water	196,648	22,979			
		(10,744)	208,883	8,977	
				(439)	217,421
Purchased Power	-	6,162			
		(301)	5,861		5,861
Materials and Supplies	3,434	12,563			
		(6,741)	9,256		9,256
Repairs and Maintenance		26,204	26,204	(2,889)	23,315
Contractual Service-Water Testing	1,478	-	1,478		1,478
Contractual Services-Other	6,130	-	6,130		6,130
Rents	2,500	-	2,500		2,500
Insurance	11,162	-	11,162		11,162
Bad Debt	12,033	-	12,033		12,033
Miscellaneous Expenses	57,574	(12,563)			
		(26,204)			
		(6,162)			
		(1,279)	11,366		11,366
<b>Total Operation and Maintenance Expenses</b>	<b>343,774</b>	<b>11,341</b>	<b>355,115</b>	<b>5,649</b>	<b>360,764</b>
Amortization	-	2,700	2,700	(2,700)	-
Depreciation Expense	91,158	(23,382)			
		159	67,935	68	68,003
Taxes Other Than Income	3,189	1,420	4,609		4,609
<b>Total Operating Expenses</b>	<b>438,121</b>	<b>(7,762)</b>	<b>430,359</b>	<b>3,017</b>	<b>433,376</b>
<b>Net Operating Income</b>	<b>9,518</b>	<b>6,627</b>	<b>16,145</b>	<b>(3,017)</b>	<b>13,128</b>
Interest Income	54	-	54		54
<b>Income Available to Service Debt</b>	<b>\$ 9,572</b>	<b>\$ 6,627</b>	<b>\$ 16,199</b>	<b>\$ (3,017)</b>	<b>\$ 13,182</b>

**Billing Analysis.** Levee Road Water proposed a decrease of \$8,048 to Total Metered Retail Sales for the test year of 2022 in its application, to reflect the current billing analysis.<sup>19</sup> Levee Road Water reported total metered water sales for the test year of

<sup>19</sup> Application, Attachment 4, LRWA\_Attachment\_1\_-\_11\_List of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment A.

\$444,032,<sup>20</sup> and provided a billing analysis in its application to calculate a total revenue from water sales of \$445,355, based on the usage during the test year and using the rates authorized in its current tariff.<sup>21</sup> Levee Road Water calculated billing adjustments from the test year totaling \$9,371,<sup>22</sup> which decreased total water sales from \$445,355 to the normalized amount of \$435,984.<sup>23</sup> Commission Staff recommended Commission approval of the pro forma adjustment to decrease Total Retail Metered Sales by \$8,048, because it meets the ratemaking criteria of being known and measurable.<sup>24</sup>

The Commission finds that the adjustments and the normalized Water Sales to Retail Customers revenue are known and measurable amounts, and the adjustment to pro forma Operating Revenue is reasonable and should be accepted.

Forfeited Discounts. Levee Road Water provided the number of occurrences and dollar amount of \$9,911 for penalties in the test year.<sup>25</sup> Levee Road Water did not report any revenue for late fees in its 2022 Annual Report.<sup>26</sup> Commission Staff could not identify where forfeited discounts are recorded in the general ledger but believed the amounts were embedded in metered water sales and were a substantial contributor to the \$8,048

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<sup>20</sup> 2022 Annual Report at 49.

<sup>21</sup> Application, Attachment 5, LRWA\_Attachment\_1\_-\_11\_List of\_attachments.pdf, Current Billing Analysis.

<sup>22</sup> Levee Road Water's Response to Staff's Second Request (filed July 17, 2024), Item 8.

<sup>23</sup> Application, Attachment 5, LRWA\_Attachment\_1\_-\_11\_List of\_attachments.pdf, Current Billing Analysis.

<sup>24</sup> Commission Staff's Report at 8–9.

<sup>25</sup> Levee Road Water's Response to Staff's First Request, Item 14\_\_Late\_fees.pdf.

<sup>26</sup> 2022 Annual Report at 49.



reduction noted above.<sup>27</sup> Commission Staff recommended that Other Water Revenues – Forfeited Discounts be increased by \$9,911 based on the information provided by Levee Road Water,<sup>28</sup> and Commission Staff recommended that the Commission approve the adjustment to increase Forfeited Discounts by \$9,911, in order to reflect the existence of late fees.

The Commission finds that this Levee Road Water’s proposed adjustment is a known and measurable change to Other Water Revenues, is reasonable and should be accepted.

Other Water Revenues – Nonrecurring Charges. In the Commission Staff’s Report, Levee Road Water’s nonrecurring charges were discussed,<sup>29</sup> in which estimated labor costs, previously included in determining the dollar amount of nonrecurring charges, are removed. Levee Road Water’s nonrecurring charges were adjusted by removing Field Labor Costs and the Office/Clerical Labor Costs from those charges that occur during normal business hours. Commission Staff recommended revised Nonrecurring Charges and a decrease to Other Water Revenue of \$2,998,<sup>30</sup> to reflect the change in nonrecurring charges. Levee Road Water provided information to Commission Staff about the number of occurrences and the amounts recorded for nonrecurring charges totaling \$1,456.<sup>31</sup> Levee Road Water reported \$3,607 of Other Water Revenues in the

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<sup>27</sup> Commission Staff’s Report at 9–10.

<sup>28</sup> Commission Staff’s Report at 9–10.

<sup>29</sup> Commission Staff’s Report at 6–7.

<sup>30</sup> Commission Staff’s Report at 10.

<sup>31</sup> Levee Road Water’s Response to Staff’s First Request, Item 15\_\_NRC\_occurrences.pdf.

test year annual report.<sup>32</sup> Levee Road Water identified the Other Water Revenue amount totaling \$3,607 as a year-end adjusting entry.<sup>33</sup> Commission Staff calculated the adjustment amount for Other Water Revenue based on the evidence of actual nonrecurring charge revenue, subject to the removal of labor as discussed earlier. As shown in the table below, a decrease to Other Water Revenue in the amount of \$2,998 was recommended by Commission Staff.<sup>34</sup>

Nonrecurring Charges	Occurrences	Current Charge	Calculated Amount	Revised Charge	Adjustment	Pro Forma Revenue
Meter Turn-On	0	\$ 10	\$ -	\$ 9	\$ -	\$ -
Meter Test Request	0	\$ 70	0	\$ 10	0	0
Disconnection Charge	43	\$ 18	774	\$ 9	(387)	387
Reconnection Charge	19	\$ 18	342	\$ 9	(171)	171
Reconnection Charge (After Hours)	0	\$ 40	0	\$ 59	0	0
Service Call/Investigation	0	\$ 18	0	\$ 9	0	0
Service Call/Investigation (After Hours)	0	\$ 40	0	\$ 59	0	0
Returned Check Fee	17	\$ 20	340	\$ 3	(289)	51
Total Nonrecurring Charges			\$ 1,456		\$ (847)	\$ 609
Test Year Other Water Revenue ( )			(3,607)		(2,151)	
Total Adjustment			<u>\$ (2,151)</u>		<u>\$ (2,998)</u>	
Pro Forma Other Water Revenue						<u>\$609</u>

The Commission finds that the Commission Staff's recommendation is consistent with precedent, that labor expenses resulting from work performed during normal business hours should not be recovered through nonrecurring charges.<sup>35</sup> Generally,

<sup>32</sup> 2022 Annual Report at 49.

<sup>33</sup> Commission Staff's Report at 10 and Levee Road Water's Response to Staff's Second Request, Item 9.

<sup>34</sup> Commission Staff's Report at 10–11.

<sup>35</sup> Case No. 2023-00090, *Electronic Application of Henry County Water District #2 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2023); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 4, 2024); Case No. 2023-00090, *Electronic Application of Kirksville Water Association Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024).

those expenses are recovered through the salary or wages expense. The Commission requires that charges be directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a nonrecurring charge for service provided during normal working hours. Thus, the Commission finds that Commission Staff's recommendation is reasonable and should be accepted. The revised nonrecurring charges as described in Appendix A to be reasonable and that Levee Road Water's Other Water Revenues shall be reduced by \$2,988 because only the incremental cost related to the service shall be recovered for service provided during normal business hours.

Salaries and Wages – Employees. In its application, Levee Road Water proposed an adjustment to increase Salaries and Wages – Employees by \$7,854,<sup>36</sup> to reflect an increase in salaries and wages.<sup>37</sup> Commission Staff calculated a Current Salaries and Wages – Employees amount of \$47,892, using the test-year employees and current wage rates.<sup>38</sup> Commission Staff agreed with Levee Road Water's proposed increase of \$7,854, as shown in the following table.<sup>39</sup>

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<sup>36</sup> Application, Attachment 4, LRWA\_Attachment\_1\_-\_11\_List of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment B.

<sup>37</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List of\_attachments.pdf, References, Adjustment B.

<sup>38</sup> Commission Staff's Report at 11–12.

<sup>39</sup> Commission Staff's Report at 11–12.

Employee	Pro Forma Reg. Hrs	Pro Forma Regular Wages	Total Pro Forma Wages
Manager	Salary	\$ 30,000	\$ 30,000
Office Staff	Salary	17,892	17,892
Total Gross Wages			47,892
Less: Test Year Salaries & Wages Expense			(40,038)
Pro Forma Salaries & Wages Adjustment			<u>\$ 7,854</u>

Commission Staff recommended the Commission accept the proposed increase of \$7,854 to Salaries and Wages – Employees because it is known and measurable.

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. Levee Road Water's Salaries and Wages- Employees should be increased by \$7,854, because the adjustment to normalize Salaries and Wages – Employees is a known and measurable change reflected in the evidence provided in record.

Employee Pension and Benefits. During the test year Levee Road Water recorded \$427 in Employee Pensions and Benefits.<sup>40</sup> However, Levee Road Water does not provide benefits to current employees.<sup>41</sup> Both of Levee Road Water's current employees are part-time employees.<sup>42</sup> The \$427 was for a retirement benefit for the former manager

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<sup>40</sup> Application, Attachment 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations.

<sup>41</sup> Levee Road Water's Response to Staff's First Request, Item 7 and Levee Road Water's Response to Staff's Second Request, Items 1a, and 1b.

<sup>42</sup> Levee Road Water's Response to Staff's First Request, Item 5.

who retired in 2022.<sup>43</sup> Levee Road Water stated that the \$427 will not reoccur and should be adjusted to reduce Employee Pensions and Benefits by \$427.<sup>44</sup>

Commission Staff recommended the Commission accept Commission Staff's agreement of Levee Road Water's proposed \$427 decrease to Employee Pension and Benefits to reflect the removal on an unusual nonrecurring expense.<sup>45</sup>

The Commission finds that Levee Road Water's adjustments are reasonable and should be accepted. Levee Road Water's Employee Pension and Benefits should be decreased by \$427, because nonrecurring transactions do not represent a standard operating costs and should be removed from the Revenue Requirement.

Purchased Water. In its application, Levee Road Water proposed an adjustment to increase its Purchased Water Expense by \$22,979<sup>46</sup> to reflect an increase to its wholesale water supplier's rate.<sup>47</sup> Subsequent to the test year, Mount Sterling Water and Sewer Commission (Mount Sterling Commission) increased its wholesale rate to Levee Road Water to \$.00367 per gallon.<sup>48</sup> Commission Staff calculated Purchased Water Expense using the test-year gallons purchased of 59,844,000<sup>49</sup> from Mount Sterling

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<sup>43</sup> Levee Road Water's Response to Staff's Second Request, Item 1a.

<sup>44</sup> Levee Road Water's Supplemental filing to Staff's Second Request, (filed July 30, 2024), Item 1.

<sup>45</sup> Commission Staff's Report at 12–13.

<sup>46</sup> Application, Attachment 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment D.

<sup>47</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, References, Adjustment D.

<sup>48</sup> Mount Sterling Commission Tariff, P.S.C. Ky. 11 (issued July 1, 2023), effective August 1, 2023.

<sup>49</sup> 2022 Annual Report at 57.

Commission<sup>50</sup> and the current rates at the time of Commission Staff's Report.<sup>51</sup> This resulted in a Purchased Water Expense of \$219,627, which results in a \$22,979 increase to Purchased Water Expense. Commission Staff agreed with Levee Road Water's proposed increase.<sup>52</sup> Subsequent to the filing of this application, Mount Sterling Commission filed for another increase to its wholesale rate to Levee Road Water from \$0.00367 per Gallon to \$0.00382 per Gallon;<sup>53</sup> however, at the time of Commission Staff's Report, the tariff had not been approved.

The Commission finds that Commission Staff's recommendation should be further modified to reflect the subsequent increase in Mount Sterling's wholesale rate which became effective September 1, 2024.<sup>54</sup> The Commission recalculated the normalized Purchased Water Expense accounting for the revised cost and determined a pro forma Purchased Water Expense of \$228,604, which is an increase of \$31,956 over the test-year Purchased Water Expense, as shown in the following table.

Description	Test Year Gallons Purchased	Current Cost per Gallon	Total
Total Purchased Water Expense	59,844,000	\$0.00382	\$ 228,604
Less: Test Year Purchased Water			(196,648)
Purchased Water Adjustment			31,956
Less: Commission Staff's Proposed Adjustment			(22,979)
Revenue Requirement Adjustment			<u>\$ 8,977</u>

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<sup>50</sup> 2022 Annual Report at 54.

<sup>51</sup> Mount Sterling Commission Tariff, P.S.C. Ky. 11 (issued July 1, 2023), effective August 1, 2023.

<sup>52</sup> Commission Staff's Report at 13–14.

<sup>53</sup> TFS2024-00329 (Ky. PSC Sept 1, 2024).

<sup>54</sup> P.S.C. Ky., Sheet No. 11 (issued Aug. 1, 2024), effective Sept. 1, 2024.

The adjustment results in an additional increase to the Revenue Requirement of \$8,977.

Purchased Power – Reclassify from Miscellaneous Expense. In its application, Levee Road Water proposed an adjustment to increase Purchased Power Expense and to decrease Miscellaneous Expense by \$6,162<sup>55</sup> to reclassify Purchased Power Expense from Miscellaneous Expense. Commission Staff reviewed the Miscellaneous Expense accounts and determined purchased power expense was included in Miscellaneous Expense.<sup>56</sup> Commission Staff agreed with Levee Road Water’s proposed methodology to report the expenses into the proper classification.<sup>57</sup> Commission Staff agreed with Levee Road Water’s proposed reclassification and recommended the Commission accept the proposed adjustment.<sup>58</sup>

The Commission finds Levee Road Water’s proposed adjustment is reasonable and should be accepted. Levee Road Water’s miscellaneous expense shall be decreased by \$6,162, and Purchased Power expense should be increased by the same \$6,162 to reflect the purchased power reclassified as Purchased Power Expense.

Excess Water Loss. In its application, Levee Road Water proposed adjustments to decrease Purchased Water Expense by \$19,619 and Purchased Power Expense by

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<sup>55</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment E.

<sup>56</sup> Supplemental information response to Staff’s Initial Request for information (filed July 2, 2024), LRWA\_SAO\_reconciled\_.xlsx, Cell L53.

<sup>57</sup> Commission Staff’s Report at 14.

<sup>58</sup> Commission Staff’s Report at 14.

\$301.<sup>59</sup> The adjustments reflect the expense for water loss in excess of 15 percent.<sup>60</sup> During the test year, Levee Road Water reported water loss of 19.8917 percent.<sup>61</sup> As discussed earlier in the report, Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included for ratemaking purposes. Commission Staff agreed with Levee Road Water’s normalization of Purchased Water Expense of \$219,627 above. However, when Levee Road Water calculated the Excess Purchased Water Expense it used the test year amount of \$196,648 instead of the pro forma amount of \$219,627.<sup>62</sup> Commission Staff calculated a net decrease of \$10,744 to Purchased Water Expense, which is \$1,125 more than proposed by Levee Road Water.<sup>63</sup> Levee Road Water proposed to reduce Purchased Power Expense by \$301, and Commission Staff agreed with the proposed adjustment, as shown in following table.<sup>64</sup>

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 219,627	\$ 6,162	\$ 225,789
Multiply by: Water Loss in Excess of 15 Percent	4.89%	4.89%	4.89%
Excess Cost	(10,744)	(301)	(11,045)
Less: Proposed Adjustments	9,619	301	9,920
Commission Staff Adjustment	<u>\$ (1,125)</u>	<u>\$ -</u>	<u>\$ (1,125)</u>

<sup>59</sup> Application, Attachment 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment C.

<sup>60</sup> Application, Attachment 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, References, Adjustment C.

<sup>61</sup> 2022 Annual Report at 57.

<sup>62</sup> Application, Attachment 11, 11\_2\_Levee\_Road\_WA\_Rate Study.xlsx, Water Loss Tab, Cell B30.

<sup>63</sup> Commission Staff’s Report at 14–15.

<sup>64</sup> Commission Staff’s Report at 14–15.



The Commission finds that Commission Staff's recommendation should be modified as stated in the Purchased Water Expense adjustment. The Commission calculated Pro Forma Purchase Water Expense to be \$228,604. The expense related to excess water loss shall be decreased by \$439, as shown in the following table.

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 228,604	\$ 6,162	\$ 234,766
Multiply by: Water Loss in Excess of 15 Percent	4.8917%	4.8917%	4.8917%
Cost of Excess Water Loss	(11,183)	(301)	(11,484)
Less: Commission Staff's Proposed Adjustment ( )	10,744	301	11,045
Revenue Requirement Adjustment	\$ (439)	\$ -	\$ (439)

The adjustment results in a decrease to the Revenue Requirement of \$439.

Reclassify Materials and Supplies from Miscellaneous Expense. In its application, Levee Road Water proposed an adjustment to increase Materials and Supplies Expense and decrease Miscellaneous Expense by \$12,563,<sup>65</sup> to appropriately classify meter supplies expense.<sup>66</sup> Commission Staff reviewed the Miscellaneous Expense accounts and determined Meter Supplies was included in Miscellaneous Expense.<sup>67</sup> Commission Staff agreed with the proposed reclassification of Meter Supplies from Miscellaneous

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<sup>65</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment F.

<sup>66</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations, References, Adjustment F.

<sup>67</sup> Supplemental information response to Staff's Initial Request for information (filed July 2, 2024), LRWA\_SAO\_reconciled\_.xlsx, Cell L62.

Expense to Materials and Supplies and recommended the Commission accept the proposed adjustment.<sup>68</sup>

The Commission finds Levee Road Water's recommended adjustment is reasonable and should be accepted. Levee Road Water's Miscellaneous Expense is decreased by \$12,563, and Materials and Supplies should be increased by the same \$12,563 to reflect the meter supplies reclassified as Materials and Supplies.

Expenses Related to Meter Installations. In its application, Levee Road Water proposed an adjustment to decrease Materials and Supplies by \$6,741,<sup>69</sup> to account for tap fee expenses that were included as part of these expenses during the test year.<sup>70</sup> During the test year, Levee Road Water installed nine new water connections.<sup>71</sup> The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.<sup>72</sup> Commission Staff agreed with Levee Road Water's proposed adjustment methodology.<sup>73</sup> Levee Road Water confirmed that contractual labor used to install meters is recorded in Repairs and Maintenance Expense.<sup>74</sup> Commission Staff decreased Materials and Supplies by \$6,741, as shown in the following table. Additionally, Levee

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<sup>68</sup> Commission Staff's Report at 15–16.

<sup>69</sup> Application, Attachment 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment G.

<sup>70</sup> Application, Attachment 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, References, Adjustment G.

<sup>71</sup> Levee Road Water's Response to Staff's First Request, Item 11a.

<sup>72</sup> USoA, Accounting Instruction 19 and 33.

<sup>73</sup> Commission Staff's Report at 16–17.

<sup>74</sup> Levee Road Water's Response to Staff's Second Request, Item 4.

Road Water confirmed that it had not capitalized the material costs,<sup>75</sup> Therefore, Commission Staff capitalized the costs, and made a corresponding adjustment to test-year depreciation as shown below. Commission Staff recommended the Commission accept Levee Road Water's \$6,741 decrease to Materials and Supplies to reflect the capitalization of expenses related to meter installation.<sup>76</sup>

Description	Materials and Supplies
Tap Fees Collected	\$9,630
Allocated Percent	70%
Proposed Adjustment	(6,741)
Less: Levee Road Water's Proposed Adjustments ( )	6,741
Commission Staff's Proposed Adjustment	<u>\$ -</u>

The Commission finds that Levee Road Water's proposed adjustment should be modified. Commission Staff did not account for the labor cost for installation of new meter taps. The USoA requires that all costs incurred be capitalized as Utility Plant in Service. As stated above, the labor used to install the meter taps, contractual labor that was classified as Repairs and Maintenance, should be decreased by \$2,889, as shown in the following table. The adjustment results in a decrease of \$2,889 to the Revenue Requirement.

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<sup>75</sup> Levee Road Water's Response to Staff's First Request, Item 11c.

<sup>76</sup> Commission Staff's Report at 16–17.

Description	Repairs and Maintenance Expense	Materials and Supplies
Tap Fees Collected	\$9,630	\$9,630
Allocated Percent	30%	70%
Commission approved Adjustment	(2,889)	(6,741)
Less: Commission Staff's Proposed Adjustment	-	6,741
Revenue Requirement Adjustment	<u>\$ (2,889)</u>	-
Net Revenue Requirement Adjustment		<u>\$ (2,889)</u>

Reclassify Repairs and Maintenance from Miscellaneous Expense. During the test year, Levee Road Water recorded \$26,204 in Miscellaneous Expenses that should have been classified as Repairs and Maintenance.<sup>77</sup> Commission Staff reviewed the Miscellaneous Expense accounts and determined Repairs and Maintenance and Line Repair Materials were included in Miscellaneous Expense.<sup>78</sup> Commission Staff recommended reducing Miscellaneous Expense by a net of \$26,204 and a corresponding increase to Repairs and Maintenance expense.<sup>79</sup> Commission Staff recommended the Commission accept Commission Staff's reclassification of Repairs and Maintenance and Line Repair Materials to the appropriate expense classification.<sup>80</sup>

The Commission finds Commission Staff's recommended adjustment is reasonable and \$26,204 should be reclassified from Miscellaneous Expense to Repairs and Maintenance to reflect the proper classification of the expense.

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<sup>77</sup> Levee Road Water's Supplemental Information Response to Staff's First Request (filed July 2, 2024), LRWA\_SAO\_reconciled\_.xlsx, Cell L57 \$17,826 + Cell L63 \$8,378.

<sup>78</sup> Levee Road Water's Supplemental Information Response to Staff's First Request (filed July 2, 2024), LRWA\_SAO\_reconciled\_.xlsx, Cell L57 and Cell L63.

<sup>79</sup> Commission Staff's Report at 17–18.

<sup>80</sup> Commission Staff's Report at 17–18.

Miscellaneous Expense. Levee Road Water reported \$57,574 for Miscellaneous Expenses.<sup>81</sup> In addition to the adjustments addressed above, Commission Staff identified expenditures of \$600 for a Christmas bonus for employees as well as \$679 for Christmas gifts, Honey Baked Hams, for Directors.<sup>82</sup> According to precedent,<sup>83</sup> Commission Staff proposed to remove the \$1,279 in expenses because they are not related to the reasonable, adequate provision of water service.<sup>84</sup>

The Commission finds that Commission Staff's recommended adjustment is reasonable and should be accepted. Levee Road Water's Miscellaneous Expense should be reduced by \$1,279, because it is not a direct expenditure for Levee Road Water's purpose to furnish adequate, efficient, and reasonable service.

Amortization of Rate Case Expense. In its application, Levee Road Water proposed an adjustment to increase Amortization Expense by \$2,700,<sup>85</sup> to reflect the three-year amortization of the estimated rate case expense.<sup>86</sup> Levee Road District contracted with Kentucky Rural Water Association (KRWA) to assist with the

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<sup>81</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations.

<sup>82</sup> Levee Road Water's Response to Staff's First Request, Item 1a, 1\_a\_2022\_General\_Ledger.xlsx, Row 1498, Gifts, and Row 1405, Christmas Bonus.

<sup>83</sup> Case 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076*, (Ky. PSC, Sep. 13, 2022), Order at 9.

<sup>84</sup> Commission Staff's Report at 18.

<sup>85</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment H.

<sup>86</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, References, Adjustment H.

application.<sup>87</sup> KRWA provided a quote for \$8,100 to prepare the rate case.<sup>88</sup> Commission Staff reviewed the rate study proposal and agreed with the proposed recovery of the \$8,100 over three years at an annual rate case expense of \$2,700 as shown below.<sup>89</sup>

Description	Amount
ARF Rate Study	\$ 6,000
Public Service Commission Filing	1,500
Travel	600
Total Rate Case Expense	8,100
Divided by 3 years	3
Annual Rate Case Expense	<u>\$ 2,700</u>

Commission Staff recommended the Commission accept Levee Road Water’s \$2,700 increase to Amortization Expense to reflect the recovery of Rate Case Expense over a three-year period based on prior precedent.<sup>90</sup>

The Commission reviewed the application and noted that the rate study being performed by KRWA at a cost of \$8,100 is being 100 percent subsidized through a grant from the Appalachian Regional Commission resulting in no net cost to Levee Road Water.<sup>91</sup> The Commission finds Levee Road Water’s proposed adjustment is not reasonable and should be modified to remove the proposed amortization of rate cost. Therefore, Levee Road Water’s amortization expense is decreased by \$2,700 to disallow the recovery of the cost of rate case assistance.

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<sup>87</sup> Application, Attachment 11, 11\_1\_KRWA\_Rate\_Study\_Proposal.pdf.

<sup>88</sup> Application, Attachment 11, 11\_1\_KRWA\_Rate\_Study\_Proposal.pdf.

<sup>89</sup> Commission Staff’s Report at 18–19.

<sup>90</sup> Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 22, 2023), at 33–34.

<sup>91</sup> Application, Attachment 11, 11\_1\_KRWA\_Rate\_Study\_Proposal.pdf.

Depreciation Expense. In the application, Levee Road Water proposed an adjustment to decrease Depreciation Expense by \$21,663,<sup>92</sup> to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Utilities* (NARUC Study).<sup>93</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC study. 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.<sup>94</sup> Upon examination, Commission Staff agreed with Levee Road Water’s methodology to adjust depreciation expense.<sup>95</sup> However, when Commission Staff calculated Depreciation Expense it calculated a Depreciation Expense of \$67,776.<sup>96</sup> Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff decreased Levee Road Water’s Depreciation Expense by \$23,382, which is \$1,719 more than proposed by Levee Road Water, as shown in the following table.<sup>97</sup> Commission Staff recommended the Commission accept Commission

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<sup>92</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment I.

<sup>93</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, References, Adjustment I.

<sup>94</sup> See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), Order; Case No. 2023-00134 *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC, Dec. 22, 2023), Order at 30; Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC, Jan. 11, 2024), Order at 36.

<sup>95</sup> Commission Staff’s Report at 19–20.

<sup>96</sup> Commission Staff’s Report at 19–20.

<sup>97</sup> Commission Staff’s Report at 19–20.

Staff's \$23,382 decrease to Depreciation Expense to reflect the NARUC service lives for Depreciation Expense.

Class of Plant	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Land & Land Rights	N/A	\$ -	\$ -	\$ -
Structures and Improvements	35 - 40	11,897	793	12,690
Communication Equipment	10	251	501	752
Office Furniture & Equipment	20 - 25	1,900	(1,086)	814
Collection & Impounding Reservoirs	50 - 75	102	(20)	82
Reservoirs and Tanks	30 - 60	1,381	(153)	1,228
Hydrants	40 - 60	139	(28)	111
Transmission & Distribution Mains	50 - 75	45,586	(14,734)	30,852
Meter Installation	40 - 50	15,543	(7,060)	8,483
Reservoirs and Tanks	30 - 60	14,359	(1,595)	12,764
Total		<u>\$ 91,158</u>	<u>(23,382)</u>	<u>\$ 67,776</u>
Less: Levee Road Water's Proposed Adjustment ( )			21,663	
Total Depreciation Adjustment			<u>\$ (1,719)</u>	

The Commission finds Commission Staff's recommended adjustment is reasonable and Levee Road Water's Depreciation expense is decreased by \$23,382, in order to align Levee Road Water's capital assets' useful lives with the NARUC recommended useful lives.

Capitalization of Water Tap Expenses. As explained in the Expenses related to Meter Installations above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. Levee Road Water stated that it did not capitalize materials cost.<sup>98</sup> Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense to account for the Tap Fee Material Expense of \$159,<sup>99</sup> as shown below:

<sup>98</sup> Levee Road Water's Response to Staff's First Request, Item 11c.

<sup>99</sup> Commission Staff's Report at 21.



Description	Materials and Supplies
Test Year Connections Expense	\$ 6,741
Divided by NARUC Proposed Service Lives	42.5
Pro Forma Depreciation Adjustment	<u>\$ 159</u>

The Commission finds that Commission Staff's recommendation should be modified, Commission Staff did not account for the labor cost involved in the installation of new meter taps. The USoA requires that all costs incurred need to be capitalized and Depreciated over its useful life. Therefore, Depreciation expense should be increased by \$68 for a total increase to Depreciation Expense of \$227, as shown in the following table. The adjustment results in a decrease to the Revenue Requirement of \$68.

Description	Repairs and Maintenance Expense	Materials and Supplies
Test Year Connections Expense	\$ 2,889	\$ 6,741
Divided by NARUC Proposed Service Lives	42.5	42.5
Pro Forma Depreciation Adjustment	<u>\$ 68</u>	159
Net Increase to Depreciation Expense		227
Less Commission Proposed Adjustment ( )		(159)
Revenue Requirement Adjustment		<u>\$ 68</u>

Taxes Other Than Income – (Federal Insurance Contribution Act (FICA)). In the application, Levee Road Water proposed an adjustment to increase Taxes Other Than Income by \$1,420,<sup>100</sup> to reflect changes in payroll tax as a result of changes to Salaries

<sup>100</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Schedule of Adjusted Operations, Adjustment J.

and Wages – Employees.<sup>101</sup> Commission Staff recalculated the payroll taxes, accounting for Adjustment (D) above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$47,892 and Levee Road Water provided the test-year Salaries and Wages – Officers of \$12,350 as shown in the following table.<sup>102</sup>

<u>Commissioner</u>	<u>Term</u>	<u>Wages</u>
Arthur Gibson	2022 - 2027	\$ 2,400
James Shipp	2019 - 2024	2,400
Rusty Dunn	2021 - 2026	2,400
Brenda Murphy	2023 - 2028	2,550
Beverly Carpenter	2020 - 2025	2,600
Total		<u>\$12,350</u>

Commission Staff calculated a pro forma Taxes Other Than Income of \$4,609. Therefore, Commission Staff agreed with Levee Road Water's proposed increase, as shown in the following table.<sup>103</sup>

<u>Description</u>	<u>Amount</u>
Salaries and Wages - Employees	\$ 47,892
Salaries and Wages - Officers	12,350
Total Salaries and Wages	<u>60,242</u>
Times: 7.65 Percent FICA Rate	7.65%
Total Taxes Other Than Income	<u>4,609</u>
Less: Test Year Taxes Other Than Income	(3,189)
Taxes Other Than Income Tax Adjustment	<u>1,420</u>
Less: Proposed Adjustment	(1,420)
Commission Staff's Proposed Adjustment	<u>\$ -</u>

<sup>101</sup> Application, Exhibit 4, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, References, Adjustment J.

<sup>102</sup> Levee Road Water's Response to Staff's First Request, Item 10.

<sup>103</sup> Commission Staff's Report at 21–22.

Commission Staff recommended the Commission approve the adjustment to increase Taxes Other Than Income by \$1,420, because it is a direct result from changes to Salaries and Wages – Employees.<sup>104</sup>

The Commission finds that Levee Road Water’s proposed adjustments are reasonable and should be accepted. Levee Road Water’s Taxes other than Income should be increased by \$1,420 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees.

SUMMARY OF ADJUSTMENTS

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

Description	Commission Staff’s Report Pro Forma	Commission Approved Adjustments	Commission Approved Pro Forma
Total Operating Revenues	\$ 446,504	\$ -	\$ 446,504
Total Operating Expenses ( )	(430,359)	(5,717)	(436,076)
Net Operating Income	16,145	(5,717)	10,428
Interest Income	54	-	54
Income Available to Service Debt	<u>\$ 16,199</u>	<u>\$ (5,717)</u>	<u>\$ 10,482</u>

REVENUE REQUIREMENT

The Commission has historically used an Operating Ratio (OR) Method to calculate the revenue requirement for water districts or associations with little to no outstanding long-term debt.<sup>105</sup> The Commission finds the OR method is appropriate for Levee Road Water because at the time of Commission Staff’s review, Levee Road Water

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<sup>104</sup> Commission Staff’s Report at 21–22.

<sup>105</sup> Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 22, 2023).

had three bonds with the United States Department of Agriculture (USDA)<sup>106</sup> Rural Development (RD). Applying an Operating Ratio of 88 percent will allow Levee Road Water sufficient revenues to cover its operating expenses and provide for reasonable equity growth. After reviewing the evidence provided, the Commission finds that the application of the OR Method is appropriate, but an adjustment to Commission Staff's proposal is necessary.

Upon review of the Staff Report, the Commission made a correction to Other Operating Revenue. In Commission Staff's Report, Commission Staff only used \$609 for Other Operating Revenue in its calculation for Revenue Required from Rates.<sup>107</sup> Commission Staff did not include the \$9,911 in revenues from Forfeited Discounts determined above. Therefore, the Commission finds that it should include the \$9,911 of Forfeited Discounts in the calculation for Revenue Required from Rates, for a total of \$10,520; in order to accurately reflect Levee Road Water's test year Other Operating Revenue. This results in a decrease to the Revenue Requirement of \$9,911.

Based on the adjustment, a revenue increase of \$52,300, or 12.00 percent, is necessary to generate the Overall Revenue Requirement of \$498,858.

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<sup>106</sup> The Farmers Home Administration (FmHA) is a former U.S. Department of Agriculture (USDA) agency created to finance and insure loans for rural families and farmers. The FmHA provided credit and technical assistance through housing, utility, business, and community development programs. FmHA has since been renamed multiple times and is currently known as USDA Rural Development.

<sup>107</sup> Commission Staff's Report at 24.

Description	Commission Staff's Report	Commission Approved
Pro Forma Operating Expenses	\$ 430,359	\$ 433,376
Divided by: 88 Percent Operating Ratio	88%	88%
Plus: Average Interest Expense	6,385	6,385
Overall Revenue Requirement	495,429	498,858
Less: Other Operating Revenue	(609)	(10,520)
Interest Income	(54)	(54)
Revenue Required from Rates	494,766	488,284
Less: Revenue from Sales at Present Rates	(435,984)	(435,984)
Required Revenue Increase	<u>\$ 58,782</u>	<u>\$ 52,300</u>
Percentage Increase	<u>13.48%</u>	<u>12.00%</u>

### RATE DESIGN

In its application, Levee Road Water proposed to increase all of its monthly retail water service rates evenly across the board by approximately 14.13 percent.<sup>108</sup> Levee Road Water stated that it is unaware of a cost of service study (COSS) being performed, and it did not anticipate having a COSS performed in conjunction with this application filing.<sup>109</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>110</sup> Commission Staff followed the allocation

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<sup>108</sup> Application, Attachment 1.

<sup>109</sup> Levee Road Water's Response to Commission Staff's First Request, Items 12a, 12b, and 12d.

<sup>110</sup> Case No. 2023-00299, *Electronic Application of Magoffin County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 24, 2024); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 5, 2024); Case No. 2023-00258, *Electronic Application of Kirksville Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

methodology proposed by Levee Road Water and allocated Commission Staff's revenue increase of \$58,782 across the board to Levee Road Water's monthly retail water service rates.

The recommended rates set forth in Appendix B to this report are based upon the revenue requirement, as calculated by Commission Staff and modified by the Commission; and will produce sufficient revenues from water sales to recover the \$488,284 Revenue Required from Water Sales, an approximate 12.00 percent increase. These rates will increase a typical residential customer's monthly water bill, using approximately 4,000 gallons per month, from \$39.25 to \$43.94, an increase of \$4.69, or approximately 11.95 percent.<sup>111</sup>

The Commission finds that the evidence provided in the record and the analysis shows that the revenue requirement as modified by the Commission and the allocation methodology used by Commission Staff are fair, just and reasonable and should be approved.

Meter Tap Fees. In the Commission Staff's Report, Commission Staff recommended an increase to Levee Road Water's Meter Tap Fee based on its cost justification information.<sup>112</sup> The expenses for the installation of the 5/8-inch x 3/4-inch meter tap calculated to a total of \$1,285.32,<sup>113</sup> which is higher than the current tariff rate of \$1,070. Commission Staff recommended increasing the Tap-On Fee, even though

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<sup>111</sup> Application, Attachment 1, LRWA\_Attachment\_1\_-\_11\_List\_of\_attachments.pdf, Customer Notice, the typical residential customer uses approximately 4,000 gallons per month.

<sup>112</sup> Commission Staff Report at 6 – 7 and Levee Road Water's Response to Commission Staff's First Request, Item 15\_b\_LRWA\_tapfee\_cost\_just.pdf.

<sup>113</sup> Levee Road Water's Response to Staff's First Request, Item 15\_b\_LRWA\_tapfee\_cost\_just.pdf.

Levee Road Water did not propose an increase to Tap-On Fees, the higher rate results in fair, just and reasonable rates as supported by the cost justification sheets.<sup>114</sup>

The Commission accepts Commission Staff's recommendation because the amounts are known and measurable and finds that the increase is reasonable. The utility should recover the full expense in order to prevent an under-recovery, which may not initially be reflected in the utility's financial health but over time has detrimental effects.

### RATE CASE FREQUENCY

In Case No. 2019-00041 and the resulting investigative report, the Commission discussed the problems that can occur when utilities avoid a review of their financial records.<sup>115</sup> A key recommendation from that investigative report was that water utilities should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.<sup>116</sup> In light of its findings in Case No. 2019-00041, the Commission noted, in Case No. 2021-00015,<sup>117</sup> that Levee Road Water had not sought a base rate adjustment since 1992.<sup>118</sup> Because it had been 32 years since the Commission last reviewed Levee Road Water's rate sufficiency and financial records,

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<sup>114</sup> Commission Staff's Report at 6–7.

<sup>115</sup> Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019), Order.

<sup>116</sup> Case No. 2019-00041, Nov. 22, 2019 Order.

<sup>117</sup> Case No. 2021-00015, *Electronic Application of Levee Road Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC June 24, 2021) at 5.

<sup>118</sup> Case No. 1992-00007, *The Application of Levee Road Water Association for Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 10, 1992).

the Commission ordered Levee Road Water to file an application for general or an alternative rate adjustment on or before June 24, 2022.<sup>119</sup>

The Commission recommends that Levee Road Water's board of commissioners consider filing periodic rate cases with the Commission every three to five years and implement a written policy to that effect to maintain a regular review of the utility's finances. These are good practices to ensure that there is not a 32-year gap between base rate cases in the future.

#### DELAYED FILING OF APPLICATION

On June 24, 2021, in Case No. 2021-00015, the Commission ordered Levee Road Water to file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 within one year from the date of service of the Order.<sup>120</sup> Levee Road Water did not tender an application in the present case until April 11, 2024. The application was not deemed filed until May 1, 2024,<sup>121</sup> almost two years after Levee Road Water was ordered to file. Levee Road Water never requested an extension to file its application late. The Commission reminds Levee Road Water that KRS 278.990(1) authorizes the Commission to assess civil penalties not to exceed \$2,500 for each offense against a utility and against any officer, agent, or employee of a utility who willfully violates any provision of KRS 278, Commission regulations, or Orders.<sup>122</sup> The Commission advises Levee Road Water that

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<sup>119</sup> Case No. 2021-00015, June 24, 2021 Order, paragraph 1.

<sup>120</sup> Case No. 2021-00015, June 24, 2021 Order at 5.

<sup>121</sup> Order (Ky. PSC May 1, 2025) at 3.

<sup>122</sup> KRS 278.990(1).



it shall comply with all future Commission Orders, or it may potentially be subject to penalties and sanctions pursuant to KRS 278.990(1).

### SUMMARY

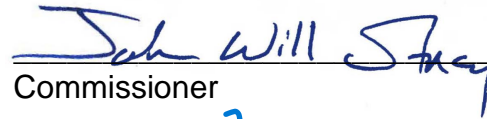
After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report, along with the above stated modifications, are supported by the evidence of record and are reasonable. By applying the OR Method to Levee Road Water's pro forma operations results in an Overall Revenue Requirement of \$498,858 and that a \$52,300 revenue increase, or 12.00 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report, as modified above, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Levee Road Water are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Levee Road Water on or after the date of this Order.
4. Within 20 days of the date of service of this Order, Levee Road Water shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Commissioner

  
Commissioner

ENTERED  
OCT 28 2024  
rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00067 DATED OCT 28 2024

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

	Meter Turn on Charge Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$19.20 per hour)	\$19.20	
Office Supplies	\$1.50	\$1.50
Office Labor (1/2 hour @ \$14.50/hr)	\$7.25	
Transportation (10 miles @ \$0.67/mile)	\$6.70	\$7.00
Misc.		
Total Revised Charge	<u>\$34.65</u>	<u>\$9.00</u>
Current Rate	\$10.00	

	Meter Test Charge Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (3 hours @\$19.20/hr)	\$57.60	
Office Supplies	\$2.50	\$2.50
Office Labor (1/4 hour @ \$14.50/hr)	\$3.62	
Transportation (10 miles @ \$0.67/mile)	\$6.70	\$7.00
Misc.		
Total Revised Charge	<u>\$70.42</u>	<u>\$10.00</u>
Current Rate	\$70.00	

	Disconnection Charge Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$19.20 per hour)	\$19.20	
Office Supplies	\$1.50	\$1.50
Office Labor (1/4 hour @ \$14.50/hr)	\$3.62	
Transportation (10 miles @ \$0.67/mile)	\$6.70	\$7.00
Misc.		

Total Revised Charge	\$31.02	\$9.00
Current Rate	\$18.00	

	Meter Reconnection Charge Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$19.20 per hour)	\$19.20	
Office Supplies	\$1.50	\$1.50
Office Labor (1/4 hour @ \$14.50/hr)	\$3.62	
Transportation	\$6.70	\$7.00
Misc.		
Total Revised Charge	\$31.02	\$9.00
Current Rate	\$18.00	

	Meter Reconnection Charge-After Hours Utility Revised Charge	Staff Revised Charge*
Field Materials		
Contract Labor (2 hours at \$25/hr.)	\$50.00	\$50.00
Office Supplies	\$1.50	\$1.50
Office Labor (1/4 hour @ \$14.50/hr)	\$3.62	
Transportation	\$6.70	\$7.00
Misc.		
Total Revised Charge	\$61.82	\$59.00
Current Rate	\$40.00	

	Service Call Charge Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$19.20 per hour)	\$19.20	
Office Supplies	\$1.50	\$1.50
Office Labor (1/2 hour @ \$14.50/hr)	\$7.25	
Transportation	\$6.70	\$7.00
Misc.		
Total Revised Charge	\$34.65	\$9.00
Current Rate	\$18.00	

Service Call Investigation Charge - After Hours		
	Utility Revised Charge	Staff Revised Charge*
Field Materials		
Contract Labor (2 hours at \$25/hr.)	\$50.00	\$50.00
Office Supplies	\$1.50	\$1.50
Office Labor (1/2 hour @ \$14.50/hr)	\$7.25	
Transportation	\$6.70	\$7.00
Misc.		
Total Revised Charge	<u>\$65.45</u>	<u>\$59.00</u>
Current Rate	\$40.00	

Returned Check Charge		
	Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor		
Office Supplies	\$2.50	\$3.00
Office Labor (\$14.50 at 1 hour)	\$14.50	
Transportation		
Misc.		
Total Revised Charge	<u>\$17.00</u>	<u>\$3.00</u>
Current Rate	\$20.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00067 DATED OCT 28 2024

The following rates and charges are prescribed for the customers in the area served by Levee Road Water Association. 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 the Order.

Monthly Water Rates

First	2,000 Gallons	\$26.02	Minimum Bill
Next	5,000 Gallons	0.00896	Per Gallon
Next	13,000 Gallons	0.00672	Per Gallon
Over	20,000 Gallons	0.00609	Per Gallon
Commercial Hauler		0.00597	Per Gallon
Individual private loading		0.00597	Per Gallon
Bulk Sales		0.00653	Per Gallon

Nonrecurring Charges

Meter Turn-On	\$9.00
Meter Test Request	10.00
Disconnection Charge	9.00
Reconnection Charge	9.00
Reconnection Charge (After Hours)	59.00
Service Call/Investigation	9.00
Service Call/Investigation (After Hours)	59.00
Returned Check Fee	3.00
5/8- x 3/4-Inch Water Tap On	\$1,285.00
All Other Meters	Actual Cost

\*Ben Rudd  
Levee Road Water Association, Inc.  
4969 Levee Road  
P. O. Box 770  
Mt. Sterling, KY 40353

\*Levee Road Water Association, Inc.  
4969 Levee Road  
P. O. Box 770  
Mt. Sterling, KY 40353

\*Artie Gibson  
Levee Road Water Association, Inc.  
4969 Levee Road  
P. O. Box 770  
Mt. Sterling, KY 40353

\*Sam Reid  
312 N. Jackson Street  
Perryville, KENTUCKY 40468