

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF WESTERN LEWIS-)	2024-00384
RECTORVILLE WATER AND GAS DISTRICT)	

ORDER

On May 9, 2025, Western Lewis-Rectorville Water and Gas District (Western Lewis-Rectorville District) submitted an application pursuant to the purchased water adjustment (PWA) procedure set forth in KRS 278.015 and 807 KAR 5:068. On May 28, 2025, Western Lewis-Rectorville District submitted additional information and applied for approval to adjust its rates.

LEGAL STANDARD

In accordance with KRS 278.015, when a wholesale supplier selling water to a water district increases its rates, the water district has the authority to increase its rate commensurate with the wholesale supplier. The water district must file, within the statutory and regulatory deadlines, a copy of the notice from the wholesale supplier showing the increase in the wholesale rate, and a statement of the volume of purchased water used to calculate the rate adjustment. The Commission shall approve the filing by order after the above documents are filed.

DISCUSSION AND FINDINGS

Western Lewis-Rectorville District purchases water from Greater Fleming County Regional Water Commission (Greater Fleming Regional) and the city of Maysville

(Maysville). Greater Fleming Regional notified Western Lewis-Rectorville District that its wholesale rate would increase from \$1.86 per 1,000 gallons to \$2.07 per 1,000 gallons, effective July 1, 2024.¹ Maysville notified Western Lewis-Rectorville District that its wholesale rate would increase from \$2.3414 per 1,000 gallons to \$2.3953 per 1,000 gallons, effective July 1, 2020.²

In addition to the two rate increases referenced above, Maysville also notified Western Lewis-Rectorville District of an increase in wholesale rates dated July 2024 (Additional Maysville Increase).³ Western Lewis-Rectorville District provided information regarding this Additional Maysville Increase. However, following a review of the Commission files related to Maysville, no tariff related to this Additional Maysville Increase could be located. Accordingly, the Commission finds that this Additional Maysville Increase is not an authorized rate approved by the Commission, and thus was not used in the Commission's calculations of the PWA factor.⁴

¹ Application at 8-9.

² TFS2020-00123 (Ky. PSC Mar. 17, 2020); Western Lewis-Rectorville District submitted the tariff on March 17, 2020, and the tariff was accepted for filing by the Commission by letter dated June 29, 2020, with an effective date of July 1, 2020.

³ Additional Case information, (filed May 28, 2025), *City_of_Maysville_Water_Rates_-_Effective_July_2024.pdf*.

⁴ The Commission has no record of a wholesale rate tariff filing from Maysville dated July 2024, and has therefore not reviewed, nor approved, such an increase. The Commission has exclusive jurisdiction over the rates and service of utilities and is charged with enforcing the provisions of KRS Chapter 278. A city-owned utility is generally exempt from the Commission's exclusive jurisdiction over utility rates and services. However, the Kentucky Supreme Court held that a city providing utility service loses its exemption and "is rendered subject to the PSC rates and service regulation" when it enters into a contract to provide wholesale utility service to a public utility subject to the Commission's jurisdiction. *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460, 463 (Ky. 1994); See *City of Russellville v. Public Service Com'n of Kentucky*, No. 2003-CA-002132-MR, 2005 WL 385077 (Ky, App. Feb. 18, 2025) (unpublished) (in which the court found that a city's failure to provide water districts notice and file a proposed wholesale rate increase for water districts pursuant to the provisions of KRS Chapter 278 and 807 KAR 5:011 prevented the city from charging the rate).

The Commission encourages Western Lewis-Rectorville District to file any future PWA applications in a timely manner. As discussed in more detail below, Western Lewis-Rectorville District's Rate-Based Income was negative from the years 2020 through 2024. Delaying several months or years to apply for a pass-through rate increase is not a best business practice as it can negatively impact the ability of the utility to provide adequate and reliable service. Western Lewis-Rectorville District proposes to increase the water rates to its customers effective June 1, 2025, to reflect the increased cost of purchased water from Greater Fleming Regional and Maysville.

Unaccounted-for Water Loss

Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. In its 2022 Annual Report filed with the Commission, Western Lewis-Rectorville District reported a water loss of 15.0101 percent.⁵ In its 2023 Annual Report filed with the Commission, Western Lewis-Rectorville District reported a water loss of 14.7430 percent.⁶ In its 2024 Annual Report filed with the Commission, Western Lewis-Rectorville District reported a water loss of 13.6418 percent.⁷ Western Lewis-Rectorville District's three-year water loss average is 14.4650 percent.⁸

⁵ *Annual Report of Western Lewis-Rectorville District to the Public Service Commission for the Year Ended December 31, 2022* at 57.

⁶ *Annual Report of Western Lewis-Rectorville District to the Public Service Commission for the Year Ended December 31, 2023* at 57.

⁷ *Annual Report of Western Lewis-Rectorville District to the Public Service Commission for the Year Ended December 31, 2024* at 57.

⁸ $15.0101\% + 14.7430\% + 13.6418\% = 43.3949 / 3 \text{ years} = 14.4650\%$.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission encourages Western Lewis-Rectorville District to continue to pursue reasonable actions to reduce or maintain its unaccounted-for water loss.

Financial Condition and Rates

Based on a review of Commission records, Western Lewis-Rectorville District has not sought a base rate adjustment since 2018.⁹ In Case No. 2018-00321, a case using the alternative rate procedure, which became final March 20, 2019, Western Lewis-Rectorville District received a revenue increase of \$211,230, or 24.43 percent.¹⁰

Western Lewis-Rectorville District has not undergone a comprehensive review by the Commission of its financial records and operational structure for more than five years. In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.¹¹ A key recommendation from that proceeding was that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.¹²

As documented in annual and audit reports filed with the Commission, Western Lewis-Rectorville District's Rate-Based Income, or adjusted net income minus principal

⁹ Case No. 2018-00321, *Application of Western Lewis-Rectorville Water and Gas District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 20, 2019).

¹⁰ Case No. 2018-00321, Mar. 20, 2019 final Order at 4.

¹¹ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

¹² See Case No. 2019-00041, Nov. 22, 2019 final Order.

payments, was negative from the years 2020 through 2024. Cash basis income, or rate based income plus depreciation expense, was positive in 2020 through 2022, negative in 2023, and positive again in 2024. A chart summarizing cash basis and rate based income is found below.

Description / Year	Audited 2020	Annual Report 2021	Audited 2022	Annual Report 2023	Annual Report 2024
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ (122,123)	\$ (70,960)	\$ (162,075)	\$ (230,532)	\$ (156,958)
Other Non-recurring Items ()	(24,750)	0	(23,625)	0	(27,799)
Non-Cash Pension and OPEB Expense / (Income)	38,813	(117,506)	111,437	(19,126)	(28,849)
Adjusted Net Income / (Loss) before Contributions	\$ (108,060)	\$ (188,466)	\$ (74,263)	\$ (249,658)	\$ (213,605)
Subtract: Principal Payments ()	(112,025)	(115,159)	(120,158)	(127,803)	(127,802)
Rate Based Income	\$ (220,085)	\$ (303,625)	\$ (194,421)	\$ (377,461)	\$ (341,407)
Add: Depreciation Expense	367,487	362,482	365,197	375,108	383,423
Cash Basis Income	\$ 147,402	\$ 58,857	\$ 170,776	\$ (2,353)	\$ 42,016
Cash Basis Income as Percent of Depreciation	40%	16%	47%	-1%	11%
Capital Spending	\$ 30,550	\$ -	\$ 95,546	\$ -	\$ -
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 189,199	\$ 244,232	\$ 250,942	\$ 146,133	\$ 126,522
Restricted Funds	252,622	313,641	307,017	346,258	325,675
Adjusted Cash Balances	441,821	557,873	557,959	492,391	452,197
Net Increase (Decrease) in Cash	\$ 113,090	\$ 116,052	\$ 86	\$ (65,568)	\$ (40,194)
<i>Selected Statistical Information (PSC Annual Reports)</i>					
Customer Count	2,239	2,274	2,288	2,303	2,353
Gallons Purchased	137,335	146,060	176,981	174,537	162,412
Gallons Sold	95,121	93,831	98,216	101,620	103,536
Gallons Used for Internal Use	24,260	31,110	52,200	47,185	36,720
Water Loss Gallons	17,954	21,119	26,565	25,732	22,156
System Use Percentage	17.6648%	21.2995%	29.4947%	27.0344%	22.6092%
Water Loss Percentage	13.0731%	14.4591%	15.0101%	14.7430%	13.6418%
Gallons Sold Per Customer Per Month	3,540	3,439	3,577	3,677	3,667
Revenues from the Sale of Water	\$ 898,036	\$ 997,569	\$ 907,836	\$ 1,041,787	\$ 1,039,341
Purchased Water Expense	51,249	53,616	66,826	63,968	58,454
Purchased Water Expense Over 15% Water Loss	0	0	7	0	0
Water Loss Expense Over 15% as Percentage of Water Revenue	0.00%	0.00%	0.00%	0.00%	0.00%

The shortfall in rate based income since 2020 leads the Commission to conclude that Western Lewis-Rectorville District should file an application for a general base rate adjustment or an alternative rate adjustment by July 31, 2026, to ensure that its revenue is sufficient to support adequate and reliable service, or, in the alternative, file a detailed analysis of its rates and revenues with a statement of the reasons why a rate case is not

necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Western Lewis-Rectorville District from this requirement.

Purchased Water Adjustment Factor

In its application, Western Lewis-Rectorville District proposed a purchased water adjustment factor of \$0.04 per 1,000 gallons. During the 12 months ended February 28, 2025, Western Lewis-Rectorville District purchased 22,441,000 gallons of water from Greater Fleming Regional and 9,316,000 gallons of water from Maysville. During the same 12 months, Western Lewis-Rectorville District produced 132,507,000 gallons of water and sold 165,420,000 gallons of water to its customers. Western Lewis-Rectorville District calculated an increase in the cost of purchased water of \$5,269; however, as discussed above, there is no tariff on file with the Commission authorizing the use of the July 2024 Maysville¹³ increase for any purpose, including in calculating the PWA factor. Therefore, the increase in the cost of purchased water from Greater Fleming Regional and Maysville is \$5,214.74, resulting in a purchased water adjustment factor of \$0.04 per 1,000 gallons¹⁴.

The purchased water adjustment factor of \$0.04 per 1,000 gallons, as calculated in Appendix A and the rates as set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by Western Lewis-Rectorville District on and after June 1, 2025, because the rates are supported by evidence of the increase in rates from Western Lewis-Rectorville District's wholesale

¹³ The Commission is allowing the pass-through of the Maysville rate associated with tariff TFS2020-00123 as it was authorized by the Commission on June 29, 2020.

¹⁴ The difference in the cost of water calculated by Western Lewis-Rectorville District of \$5,269 and the Commission calculation of \$5,214.74 is only \$54.26 and did not change the proposed PWA factor of \$0.04 per 1,000 gallons.

water suppliers and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Western Lewis-Rectorville District are denied as proposed.

2. The purchased water adjustment factor of \$0.04 per 1,000 gallons is approved.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Western Lewis-Rectorville District on and after June 1, 2025.

4. Within 20 days of the date of service of this Order, Western Lewis-Rectorville District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

5. On or before July 31, 2026, Western Lewis-Rectorville District shall file an application, either 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, or in the alternative, file a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Western Lewis-Rectorville District from this requirement.

6. 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. 2024-00384 DATED JUN 26 2025

	Base Rate	New Rate	Change
<u>Greater Fleming RWC</u>			
Purchases in Gallons	22,441,000	22,441,000	
Rate per 1,000 Gallons	<u>\$1.86/1,000</u>	<u>\$2.07/1,000</u>	
Subtotal	\$41,740.26	\$46,452.87	\$4,712.61
 <u>Maysville (TFS2020-00123)</u>			
Purchases in Gallons	9,316,000	9,316,000	
Rate per 1,000 Gallons	<u>\$2.3414/1,000</u>	<u>\$2.3953/1,000</u>	
Sub-total	\$21,812.48	\$22,314.61	\$502.13
Total	\$63,552.74	\$68,767.48	
Increased water cost			\$5,214.74
Increased water cost		\$5,214.74	
Divided by Gallons sold/1,000		<u>165,420,000</u>	
Purchased water adjustment factor		\$0.03152	per 1,000 Gallons
		or \$ 0.00004	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00384 DATED JUN 26 2025

The following rates and charges are prescribed for the customers in the area served by Western Lewis-Rectorville Water and Gas District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

First	1,000 Gallons	\$20.76	Minimum Bill
Next	4,000 Gallons	0.00726	Per Gallon
Over	5,000 Gallons	0.00547	Per Gallon

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