

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LYON COUNTY)	CASE NO.
WATER DISTRICT FOR AN ALTERNATIVE RATE)	2023-00352
FILING PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of February 14, 2024,¹ the attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's February 14, 2024 Order, Lyon County Water District (Lyon District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Lyon District to the Commission's July 22, 2021 Order in Case No. 2020-00085² regarding filings with the Commission.



For

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

DATED MAY 24 2024

cc: Parties of Record

¹ Order (Ky. PSC Feb. 14, 2024).

² Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LYON COUNTY)	CASE NO.
WATER DISTRICT FOR AN ALTERNATIVE RATE)	2023-00352
FILING PURSUANT TO 807 KAR 5:076)	

COMMISSION STAFF'S REPORT
ON LYON COUNTY WATER DISTRICT

Lyon County Water District (Lyon District) is a water and sewer utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 2,847 residential customers and 58 commercial customers,¹ as well as retail sewer service to approximately 98 residential customers and 8 commercial customers that reside in Lyon County, Kentucky.²

On January 30, 2024,³ Lyon District filed its application with the Commission requesting an adjustment to its water and sewer service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,⁴ Lyon District used the calendar year ended December 31, 2022, as the basis for its application. Lyon District's

¹ *Annual Report of Lyon District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Water Report), at 12, 49.

² *Annual Report of Lyon District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Sewer Report), at 9, 36.

³ Lyon District tendered its application on December 13, 2023. By letters dated December 14, 2023, and January 2, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on January 30, 2024.

⁴ 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.

last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2021-00391.⁵ Since that matter, Lyon District has not adjusted its rates. To ensure the orderly review of the application, the Commission established a procedural schedule by Order⁶ dated February 14, 2024. Commission Staff's First Request for Information⁷ (Staff's First Request) was issued as an Appendix to the procedural schedule issued on February 14, 2024, with a response due date of March 21, 2024. Commission Staff's Second Request⁸ for Information (Staff's Second Request) was issued on April 4, 2024, with a response due date of April 18, 2024. Lyon District responded to both requests in a timely manner, excepting one response each time.⁹

WATER LOSS

The Commission notes that in its 2022 Annual Report, Lyon District reported a water loss of 14.7491 percent.¹⁰ 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. The table below shows that the 2022 total annual cost of water loss to Lyon District is \$68,894.

⁵ Case No. 2021-00391, *Electronic Application of Lyon County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC May 13, 2022).

⁶ Order (Ky. PSC Feb. 14, 2024).

⁷ Order (Ky. PSC Feb. 14, 2024), Appendix B, Commission Staff's First Request for Information (Staff's First Request).

⁸ Commission Staff's Second Request for Information (issued Apr. 4, 2024) (Staff's Second Request).

⁹ Lyon District's Response to Staff's First Request (filed Mar. 26, 2024), Item 14 and Lyon District's Response to Staff's Second Request (filed Apr. 29, 2024), Item 4; Corrected Response to Staff's Second Request (filed May 6, 2024).

¹⁰ 2022 Annual Water Report at 57.

Description	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 449,735	\$ 17,370	\$ 467,105
Water Loss Percent	14.7491%	14.7491%	
Total Water Loss	\$ 66,332	\$ 2,562	\$ 68,894

DISCUSSION

Using its pro forma test-year operations, Lyon District determined that a base rate revenue increase of \$191,459, or 13.38 percent, was necessary to achieve the revenue requirement for its water division, as shown in the table below.¹¹

Pro Forma Operating Expenses	\$ 1,299,532
Plus: Average Annual Principal and Interest Payments	291,041
Additional Working Capital	58,208
Overall Revenue Requirement	<u>1,648,781</u>
Less: Other Operating Revenue ()	(25,080)
Interest Income ()	(1,064)
	<u>1,622,637</u>
Revenue Required from Rates	1,622,637
Less: Pro Forma Present Rate Service Revenues ()	<u>(1,431,178)</u>
Required Revenue Increase	<u>\$ 191,459</u>
Percentage Increase	<u>13.38%</u>

Using its pro forma test-year operations, Lyon District determined that a base rate increase of \$37,371, or 153.53 percent, was necessary to achieve the revenue requirement for its sewer division, as shown in the table below.¹²

¹¹ Response to Filing Deficiencies (filed Dec. 14, 2023), Exhibit A, Schedule of Adjusted Operations – Water Division, at 3.

¹² Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, at 4.

Pro Forma Operating Expenses	\$ 54,307
88% Operating Ratio	<u>0.88</u>
Overall Revenue Requirement	61,713
Less: Other Operating Revenue	0
Interest and Investment Income	<u>0</u>
Revenue Required from Rates	61,713
Less: Pro Forma Present Rate Service Revenues	<u>(24,341)</u>
Required Revenue Increase	<u>\$ 37,372</u>
Percentage Increase	<u><u>153.53%</u></u>

To determine the reasonableness of the rates requested by Lyon District, Commission Staff performed a limited review of Lyon District’s test-year operations. The scope of Commission Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable¹³ changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff’s recommendations are summarized in this report. Tyler Holliday reviewed the calculation of Lyon District’s Overall Revenue Requirement, and Eddie Beavers reviewed Lyon District’s reported revenues and rate design.

¹³ Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes.” See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

SUMMARY OF FINDINGS

Water Division

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Lyon District's required revenue from water sales is \$1,628,171 to meet the Overall Revenue Requirement for the Water Division of \$1,649,591 and that a \$196,993 revenue increase, or 13.76 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Lyon District proposed to increase its monthly retail water service rates by approximately 16.04 percent across the board. Lyon District stated that it did not complete a cost-of-service study (COSS) at this time as there has been no material changes in the water system.¹⁴

Lyon District has included Fire Hydrant charges related to fire protection use in the billing analysis for the current rates billing analysis but removed the rates in the proposed billing analysis.¹⁵ Lyon District's tariff indicates that fire protection charges are only levied if a fire protection entity fails to provide a monthly water usage report to the utility., there is no actual fire protection rate in Lyon District's tariff.¹⁶ Lyon District charges the entity approximately 0.3 percent of the total water sales for the month, this policy is in the current tariff on file with the Commission. Commission Staff recommends accepting the removal of fire protection charges in the proposed billing analysis.

¹⁴ Lyon District's Response to Staff's First Request, Item 13.

¹⁵ Lyon District's Response to Staff's First Request, Item 18a.

¹⁶ Lyon District's Response to Staff's First Request, Item 18a, and Lyon District's Tariff, page 9 of unnumbered pages, Fire Departments.

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 there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.¹⁷ Finding no such evidence in this case, Commission Staff followed the method previously accepted by the Commission and allocated the \$196,993 revenue increase evenly across the board to Lyon District's monthly retail water service rates.

While Commission Staff is recommending a 13.47 percent revenue increase, Commission Staff notes that a 13.47 percent across the board increase to its water rates would result in an approximate \$13,124 over-recovery, which results in unfair rates to Lyon District's customers. Commission Staff notes that in the rate study provided by Lyon District, there was a \$12,447 over-recovery of water rates.¹⁸ Therefore, to properly meet the \$1,628,171 Revenue Requirement from Water Sales, Commission Staff will increase water rates by approximately 12.92 percent to ensure that the discrepancy is minimized while providing fair, just and reasonable rates to Lyon District's customers.

The rates, which are set forth in Appendix B to this report, are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$1,628,171 Revenue Required from Rates. The

¹⁷ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

¹⁸ Lyon District's Response to Staff's First Request, Item 15, Rate_Study_Lyon_County_Water_District.xlsx.

rates will increase a typical residential customer's monthly water bill from \$50.98 to \$57.58, an increase of \$6.60, or approximately 12.92 percent.¹⁹

3. Nonrecurring Charges. Following the Commission's recent decisions,²⁰ Commission Staff has reviewed Lyon District's nonrecurring charges. The Commission found that, because district personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Commission Staff reviewed the cost justification information provided by Lyon District and adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those charges which occur during normal business hours.²¹ Such adjustments result in the following nonrecurring charges:

Description	Num.	Test Year	Current Rate	Revised Rate	Adj	Pro Forma
Miscellaneous Service Revenues:						
Field Collection Charge	2	\$ 37	\$7.00	\$7.00	\$ (23)	\$ 14
Meter Connection/Unlock Charge	193	6,050	\$10.00	\$10.40	(4,043)	2,007
Meter Read-Out Charge	91	2,040	\$10.00	\$7.40	(1,367)	673
Meter Reread Charge	0	0	\$7.00	\$7.40	0	0
Meter Test Charge	0	0	\$37.00	\$35.40	0	0
Returned Check Charge	22	674	\$31.00	\$8.00	8	682
Total Miscellaneous Service Revenues		\$ 8,801			\$ (5,424)	\$ 3,377
Corrected Test Year		(8,101)			700	
Adjustment		\$ 700			\$ (4,724)	

¹⁹ The typical residential customer uses approximately 4,000 gallons per month. Application, page 7 of unnumbered pages.

²⁰ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment*, (Ky. PSC Dec. 30, 2020).

²¹ Lyon District's Response to Staff's First Request, Item 15.

The calculations of these revised nonrecurring charges as seen in the table below can be found in Appendix A. Commission Staff recommends that the Commission approve of the adjustment to the nonrecurring charges and recommend the Commission approve the revised charges found in Appendix B.

Miscellaneous Service Revenues:	
Field Collection Charge	\$7.40
Meter Connection-Unlock Charge	\$10.40
Meter Read-Out Charge Recheck Charge	\$7.40
Meter Reread Charge	\$7.40
Meter Test Charge	\$35.40
Returned Check Charge	\$8.00

Tap Fees Lyon District filed a cost justification in response to Commission Staff's First Request to increase its 5/8" x 3/4" Meter Tap Fee and its 1" Meter Tap Fee.²² Commission Staff has reviewed the cost justification and agrees with the information contained in the cost justification. Commission Staff recommends that the Commission accept the increase for the 5/8" x 3/4" Meter Tap Fee from \$1,022 to \$1,265 and the 1" Meter Tap Fee from \$1,382 to \$1,680.

Sewer Division

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio method, as generally accepted by the Commission, Commission Staff found that Lyon District's required revenue from sewer sales is \$61,372 to meet the Overall Revenue Requirement of \$61,372 and that a \$37,031 revenue

²² Lyon District's Response to Staff's First Request, Item 16.

increase, or 152.13 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Sewer Service Rates. Lyon District proposed to increase its monthly retail sewer service rates by approximately 153.67 percent across the board.²³ Lyon District stated that it did not complete a COSS at this time for its sewer rates considering there have been no material changes in the sewer system.²⁴

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 there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.²⁵ However, Commission Staff has determined that a 152.19 percent increase in revenue requirement could potentially place a significant hardship on Lyon District's customers and is unreasonable to allocate across the board in one phase. A phased-in approach to rates can ease the impact on customers but still allow the utility to meet its financial and debt obligations. Commission Staff notes that the Commission has previously accepted a phased-in approach when the increase to rates is significant.²⁶ Following a phased-in approach, Commission Staff calculated a three-year phase-in for the sewer operations, which can be found in Appendix B.

The rates for Phase 1, would become effective with the Commission's Order and represent a 33.3 percent increase in the revenue requirement. The rates in Phase 2,

²³ Response to Filing Deficiencies, Exhibit A, Revenue Requirements – Sewer Division.

²⁴ Lyon District's Response to Staff's First Request, Item 13.

²⁵ Case No 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

²⁶ Case No. 2022-00366, *Electronic Application of Mountain Water District for a General Adjustment of Sewer Rates* (Ky. PSC Nov. 28, 2023).

would become effective one year after the Commission's Order approving the phased in rates and represent a 33.3 percent increase in the revenue requirement. The rates set forth in Phase 3, would become effective two years after the Commission's Order approving the phased-in rates and represent a 33.3 percent increase in the revenue requirement. The rates are based upon the revenue requirement as calculated by Commission Staff and will produce sufficient revenues from sewer sales after the third phase, and Lyon District will recover the \$30,030 revenue required from rates.

The Phase 1 rates will increase a typical residential customer's monthly sewer bill from \$25.60 to \$37.61, an increase of \$12.01, or approximately 46.90 percent.²⁷ The Phase 2 rates will increase a typical residential customer's monthly sewer bill from \$37.61 to \$51.55, an increase of \$13.94, or approximately 37.07 percent. The Phase 3 rates will increase a typical residential customer's monthly sewer bill from \$51.55 to \$64.56, an increase of \$13.01, or approximately 25.24 percent. Commission Staff recommends that the Commission accept Commission Staff's phased in approach to reduce rate shock to Lyon District's customers and to allow Lyon District's customers the ability to gradually adjust to the significant rate increase over time.

Nonrecurring Charges. Lyon District's nonrecurring charges are listed in the Water Tariff on file with the Commission.²⁸ In Lyon District's response to Commission Staff's Second Request, it allocated expenses using the number of customers for water and sewer operations to develop an allocation factor.²⁹ However, there is no mention of

²⁷ Application, page 7 of unnumbered pages. The typical residential customer uses approximately 4,000 gallons per month..

²⁸ Lyon District's Tariff 8th Revised Sheet No. 1.

²⁹ Lyon District's Response to Staff's Second Request, Item 2.

allocating these revenues to the sewer operations. Commission Staff recommends that the Commission instruct Lyon District to allocate the shared revenues with the water in a manner that Lyon District appropriately allocates the expenses for the sewer operations.

Late Fees. Lyon District failed to properly allocate the Late Fees between the water and the sewer operations; Lyon District did not mention allocating the Late Fees to the sewer operations. Commission Staff recommends that the Commission instruct Lyon District to allocate the Late Fees with the sewer in the same manner that Lyon District allocates the expenses for its Late Fees.

Tap Fees Lyon District filed a cost justification in its response to Commission Staff's First Request to increase its Sewer Tap-On Fee.³⁰ Commission Staff has reviewed the cost justification and agrees with the information contained in the cost justification. Commission Staff recommends that the Commission accept the Sewer Tap-On Fee increase for from \$550 to \$1,554.

PRO FORMA OPERATING STATEMENT

Water Division

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

³⁰ Lyon District's Response to Staff's First Request, Item 16, Item__16_Sewer_Connection_Tap.pdf

Water Division

	(2022) Test Year	Lyon County Adjustment	Commission Adjustment	Total Adjustments (Ref.)	Pro Forma
Operating Revenues					
Sales of Water	1,399,626	56,632		56,632	A
		(25,080)		(25,080)	B
Other Water Revenues					
Forfeited Discounts	0	16,979		16,979	B
Miscellaneous Service Revenue	0	8,101	(4,724)	3,377	B
Total Operating Revenues	1,399,626	56,632	(4,724)	51,908	1,451,534
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	179,018	(5,595)		(5,595)	D
		(6,105)		(6,105)	C
Salaries and Wages - Officers	18,000	(634)		(634)	E
Employee Benefits (Medical and Dental)	34,200	(2,020)		(2,020)	F1
		(14,771)		(14,771)	F2
			10,848	10,848	F3
			(8,868)	(8,868)	F4
Retirement (CERS)		2,020		2,020	F1
		48,828	(396)	48,432	G1
			(12,230)	(12,230)	G2
Benefits Allocations to Sewer ()		(2,405)	377	(2,028)	C
Purchased Water	431,242		18,493	18,493	H
Purchased Power for Pumping	0		17,370	17,370	I
Materials and Supplies	83,857		(17,370)	(17,370)	J
Contractual Services	115,634	61,392	(6,636)	54,756	K
Insurance - General Liability & Other	24,978	(1,029)		(1,029)	C
Insurance - Workers Comp	4,246			0	
Miscellaneous Expense	86,586			0	
Total Operation and Maintenance Expenses	977,761	79,681	1,588	81,269	1,059,030
Depreciation	314,285	(93,336)		(93,336)	L
Amortization	0	6,045	(639)	5,406	M
Taxes Other Than Income	2,236	14,771		14,771	F2
		(1,504)		(1,504)	D
		(467)	(79)	(546)	C
Total Operating Expenses	1,294,282	5,190	870	6,060	1,300,342
Net Operating Income	105,344	51,442	(5,594)	45,848	151,192
Interest Income	1,064			0	1,064
Income Available to Service Debt	\$ 106,408	\$ 51,442	\$ (5,594)	\$ 45,848	\$ 152,256

(A) Billing Analysis. Lyon District proposed an increase of \$56,632 to its test year water sales of \$1,399,626 to adjust for its rate increase which became effective

during the test year.³¹ Additionally, it reclassified \$25,080 from Water Sales to Forfeited Discounts (\$16,979) and Miscellaneous Service Revenues (\$8,101).³² Commission Staff agrees that the proposed adjustments are appropriate to normalize test year general water sales revenues of \$1,431,178 and recommends that the Commission approve the adjustments.

(B) Other Water Revenues. In its application, Lyon District proposed an adjustment to the general water sales to reclassify \$25,080.³³ Lyon District stated that these revenues should be reported and reclassified as Forfeited Discounts of \$16,979 and to Miscellaneous Service Revenues of \$8,101. Commission Staff confirmed these through information provided in the application and reclassified these amounts to correct.

In Case No. 2021-00391, Lyon District filed a response³⁴ to Staff's First Request that stated that there was an error in the Miscellaneous Service Revenues amount that was provided in the Schedule of Adjusted Operations for Miscellaneous Service Revenues. Lyon District, in the Schedule of Adjusted Operations, showed Miscellaneous Service Revenues of \$8,101.³⁵ In the response, Lyon District showed Miscellaneous

³¹ Case No. 2021-00391, *Electronic Application of Lyon County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC May 13, 2022). Commission Staff notes Lyon District's reference is to Case No. 2021-00391, *Electronic Application of Lyon County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC May 13, 2022) final Order.

³² Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, References A and B.

³³ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference B.

³⁴ Case No. 2021-00391, *Electronic Application of Lyon County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (filed Feb. 10, 2022), Lyon District's Response to Staff's First Request, Item 7.

³⁵ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference B.

Service Revenues of \$8,801.³⁶ After review, Commission Staff calculated that the correct amount of Miscellaneous Revenues is \$8,801.

In response to Staff's First Request, Lyon District provided cost justification sheets for the Nonrecurring Charges.³⁷ Commission Staff reviewed the responses to the information requests, the cost justification sheets, and the general ledger. Lyon District stated, in its response to Staff's Second Request, that it is not seeking to revise these charges at this time.³⁸ Lyon District failed to provide updated cost justification for the Field Collection Charge.³⁹ Commission Staff reviewed information contained in Case No. 2021-00391 concerning the cost justification for the Field Collection Charge.⁴⁰ Lyon District responded to Staff's First Request, in the current case, providing cost justifications for the Meter Readout Charge and Meter Reread Charge. The costs of these nonrecurring charges are similar to the Field Collection Charge as provided in Case 2021-00391; Commission Staff used these similar charges to calculate the rate for the Field Collection Charge in this case.⁴¹

(C) Commission Staff decreased the water test year Miscellaneous Service Revenues of \$8,801⁴² by \$5,424, by removing field labor and clerical/office labor from the nonrecurring charges and other charges misplaced into this category that are

³⁶ Lyon District's Response to Staff's First Request, Item 14.

³⁷ Case No. 2021-00391, Lyon District's Response to Staff's First Request (filed Feb. 10, 2022), Item 16.

³⁸ Lyon District's Response to Staff's Second Request, Item 11(b).

³⁹ Case No. 2021-00391, Lyon District's Response to Staff's First Request, Item 6 and Item 9.

⁴⁰ Case No. 2021-00391, Lyon District's Response to Staff's First Request, Item 7.

⁴¹ Case No. 2021-00391, Lyon District's Response to Staff's First Request, Item 7.

⁴² Lyon District's Response to Staff's Second Request, Item 6.

accomplished during normal office hours. As noted above, the proposed adjustments made by Commission Staff result in a pro forma amount of \$3,377 as shown below. Commission Staff recommends that the Commission approve these adjustments. Allocation of Shared Expenses. In its application, Lyon District proposed to allocate \$10,640 of various Water Division expenses to its Sewer Division.⁴³ Lyon District proposed to allocate these expenses in proportion to the number of customers served by each division.⁴⁴ The table below shows the individual allocation amounts. Commission Staff found that Lyon District's proposed allocation of \$467 to its Sewer Division Taxes Other Than Income was understated by \$79. Additionally, Commission Staff adjusted Employee Benefits, which resulted in a \$377 allocation. The total adjusted allocation to the Sewer Division is \$10,340. Commission Staff recommends that the Commission approve the proposed allocations because they are consistent with Commission precedent.⁴⁵

Description	Lyon District Proposed	Commission Staff Adjustment	Pro Forma Expense	Allocation		Adjustment Water Division
				Water Division 96.48%	Sewer Division 3.52%	
Wages - Employees	\$ 173,424	\$ -	\$ 173,424	\$ 167,319	\$ 6,105	\$ (6,105)
Wages - Officers	18,000	-	18,000	17,367	633	(633)
Employee Benefits	34,200	23,411	57,611	55,583	2,028	(2,028)
Ins - General Liability & Other	24,978	-	24,978	24,099	879	
Ins - Workers Comp	4,246	-	4,246	4,097	149	(1,028)
Taxes Other Than Income	15,503	-	15,503	14,957	546	(546)
Total	<u>\$ 270,351</u>	<u>\$ 23,411</u>	<u>\$ 293,762</u>	<u>\$ 283,422</u>	<u>\$ 10,340</u>	<u>\$ (10,340)</u>

(E) Salaries and Wages - Employees. Lyon District proposed to reallocate \$6,105 of its Salaries and Wages – Employees Expense to its Sewer Division as

⁴³ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations, Reference D.

⁴⁴ Lyon District's Response to Staff's Second Request, Item 2a.

⁴⁵ Case No. 2021-00094, *Electronic Application of Garrison-Quincy-KY-O-Heights Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 24, 2021).

discussed in adjustment “C” above.⁴⁶ Additionally, it proposed a \$5,595 decrease to Salaries and Wages – Employees expense to reflect an increase in wage rates, which was offset by changes in personnel.⁴⁷ Commission Staff reviewed Lyon District’s 2022 general ledger⁴⁸ and adjustment calculation⁴⁹ and determined the proposed adjustment is an accurate representation of the decrease in the annual labor expense to Lyon District. Commission Staff recommends that the Commission accept Lyon District’s adjustment because it is known and measurable.

(F) Salaries and Wages - Officers. Lyon District proposed to reallocate \$633 to its sewer division as discussed in adjustment “C” above.⁵⁰ Commission Staff notes that Lyon District has three board members with monthly salaries of \$500,⁵¹ which results in an annual expense of \$18,000. Commission Staff recommends that the Commission accept the proposed adjustment because it is consistent with Commission precedent⁵² concerning allocation of expenses between divisions.

(G) Employee Benefits (Medical and Dental). Lyon District proposed⁵³ to reallocate \$2,405 of its Employee Benefits to its Sewer Division as described in

⁴⁶ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations, Reference D.

⁴⁷ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference C.

⁴⁸ Lyon District’s Response to Staff’s First Request, Item 1a, General Ledger.

⁴⁹ Lyon District’s Response to Staff’s First Request, Rate Study File, Wages tab.

⁵⁰ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference D.

⁵¹ Lyon District’s Response to Staff’s First Request, Item 9.

⁵² Case No. 2021-00094, Nov. 24, 2021 Order.

⁵³ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference D.

adjustment “C” above. Due to other adjustments made to this expense by Commission Staff, the correct amount allocated should be \$2,028. Therefore, Commission Staff recommends a decrease of \$377 to the proposed reallocation. Lyon District reported \$34,200 in combined medical, dental and retirement benefits in its test year. Commission Staff determined that separation of the medical and related benefit costs from retirement benefits more accurately reflects and explains the respective adjustments, and reclassified \$2,020 (F1) of expense which is the test year amount, to Retirement – County Employees Retirement System (CERS). Commission Staff also combined the amounts from Lyon District’s Retirement – CERS and Employee Benefits – Medical and Dental Expenses that are to be reallocated to the sewer division into one line item. In its application, Lyon District proposed to reclassify \$14,771 (F2) in payroll taxes from Employee Benefits to Taxes Other Than Income.⁵⁴ It did not propose any adjustment to medical expenses. Commission Staff reviewed Lyon District’s most recent medical insurance invoice and general ledger postings and calculated an increase of \$10,848 (F3).⁵⁵ Lyon District also did not make an adjustment to reflect the allowable health insurance premium based on the Bureau of Labor Statistics’ (BLS) national average for an employer’s share of health insurance premiums⁵⁶ and the Willis Benchmarking Survey for national average for an employer’s share of dental insurance that is consistent with

⁵⁴ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference E.

⁵⁵ Lyon District’s Response to Staff’s First Request, Items 1a and 6.

⁵⁶ U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Single Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t03.htm>, U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Family Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t04.htm>.

Commission precedent.⁵⁷ Commission Staff reviewed the costs of coverage and withholding amounts reported for test year payroll and calculated adjustments to reduce medical and dental costs by \$8,020 (F4) and \$848 (F4), respectively, resulting in a net pro forma amount of \$23,429 as shown in the table below:

Description	Employees	Mar 2024 Invoice (all employees)	Annual	BLS % (Employee %)	Employee Cont ()	Net
<i>Medical</i>						
Single	3	\$ 1,507.83	\$ 18,094	21%	(3,800)	14,294
Family	1	1,065.78	12,789	33%	(4,220)	8,569
Totals	4	<u>\$ 2,573.61</u>	\$ 30,883		(8,020)	22,863
<i>Dental</i>						
General Ledger Posting 11/22/23		117.80	1,414	60%	(848)	566
Total			<u>32,297</u>		<u>\$ (8,868)</u>	<u>\$ 23,429</u>
Test Year ()			(21,449)		(F4)	
Adjustment		(F3)	<u>\$ 10,848</u>			

Commission Staff recommends the Commission accept Lyon District’s proposed reclassification of \$14,771 and Commission Staff’s cost increase of \$10,848 because the amounts are known and measurable. Commission Staff recommends the Commission accept the \$8,020 and \$848 reductions to medical and dental costs because the adjustments are based on Commission precedent.

(H) Retirement (CERS). Lyon District participates in the CERS, which is managed by the Kentucky Public Pension Authority (KPPA).⁵⁸ Lyon District proposed an increase of \$48,828, which the Lyon District stated was necessary to reverse journal entries made by Lyon District’s auditor for General Accounting Standards Board (GASB)

⁵⁷ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), Order at 9-10; and The Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

⁵⁸ *Audit Report of Lyon District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Audit Report), at 22.

Statements 68 and 75.⁵⁹ Commission Staff reviewed the change in Lyon District’s net retirement liability and determined that the adjustment should have been an increase of \$48,432 resulting in a \$396 reduction. Commission Staff recalculated the required CERS contribution based on the 2024 Kentucky Public Pension Authority (KPPA) contribution rate⁶⁰ which resulted in a \$12,230 reduction for a pro forma contribution adjustment of \$34,182 as shown below. Commission Staff recommends the Commission accept the adjustments because they are known and measurable based on the most recent standard contribution rate as provided by KPPA and a review of the journals.

Description	Amount
Gross Wages	173,423
CERS Contribution Rate	19.71%
Pro Forma CERS Contribution	<u>\$ 34,182</u>

(l) Purchased Water. In its application, Lyon District did not propose an adjustment to its Purchased Water expense. Commission Staff calculated a net \$18,493 increase to correct pro forma cost-of-water purchases, as shown in the table below. Commission Staff recommends this adjustment because it reflects the current purchase rates of each of Lyon District’s water vendors⁶¹ and the corrected number of gallons purchased by Lyon District as submitted in response to Staff’s Second Request.⁶²

⁵⁹ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference F.

⁶⁰ KPPA Contribution Rates, <https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>

⁶¹ Lyon District’s Response to Staff’s Second Request, Item 4.

⁶² Lyon District’s Response to Staff’s Second Request, 2022_Gallons_Purchased.xlsx.

Description	Princeton	Kuttawa	Crittenden- Livingston	Eddyville	Barkley	Total
Gallons	63,880	43,231	9,124	11,536	2,584	130,355
Current Purchase Rate	\$ 3.583	\$ 3.220	\$ 2.830	\$ 4.210	\$ 2.810	\$ 3.4501
Pro Forma Cost	\$ 228,882	\$ 139,204	\$ 25,821	\$ 48,567	\$ 7,261	\$ 449,735
Test Year Purchase Cost						431,242
Increase in Purchase Cost						\$ 18,493

(J) Purchased Power. In its application, Lyon District did not propose an adjustment to its Purchased Power expense. Upon review of Lyon District’s general ledger,⁶³ Commission Staff found that Lyon District’s Purchased Power was classified in Materials and Supplies expense and reclassified the amount of \$17,370 to Purchased Power. Commission Staff recommends that the Commission accept Commission Staff’s adjustment because it reflects the appropriate nature of expenses incurred by Lyon District.

(K) Materials and Supplies. In its application, Lyon District did not propose an adjustment to its Materials and Supplies expense. To account for the reclassification of Purchased Power as addressed above, Commission Staff removed \$17,370 from Materials and Supplies. Commission Staff recommends that the Commission accept this adjustment because it is necessary in reclassifying Lyon District’s Purchased Power Expense.

(L) Contractual Services. In its application, Lyon District proposed a \$61,392 increase to its Contractual Services to reflect the costs of upgrading its billing software as quoted by United Systems.⁶⁴ Commission Staff reviewed the quotes⁶⁵ for initial fees as

⁶³ Lyon District’s Response to Staff’s First Request, Item 1a, General Ledger.

⁶⁴ Lyon District’s Response to Staff’s Second Request, Item 3, Quotes.

⁶⁵ Lyon District’s Response to Staff’s Second Request, Item 3.

well as monthly application and service charges sent to Lyon District by United Systems and concluded that the Lyon District's proposed adjustment does not accurately reflect the cost of services. Commission Staff found that the correct amount of the monthly application and service charges is \$4,563, or \$54,756 for the year. Initial fees will be addressed in Adjustment L, Amortization. Commission Staff decreased Contractual Services by \$6,636 to more accurately reflect the quotes provided by Lyon District, and recommends the Commission accept Commission Staff's adjustment as a known and measurable change to Lyon District's Contractual Services.

(M) Depreciation Expense. In its application, Lyon District proposed a decrease of \$93,336 to its Depreciation Expense to reflect adjustments of asset service lives to midpoint of service life range set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled, *Depreciation Practices for Small Water Utilities* (NARUC Study).⁶⁶ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the 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. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.

⁶⁶ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

Therefore, Commission Staff agrees with Lyon District's proposed adjustment and recommends accepting the decrease pro forma Depreciation Expense by \$93,336.

(N) Amortization. In its application, Lyon District proposed an increase of \$6,045 to Amortization to reflect the five-year amortization of the installation costs and annual fees as quoted by United Systems to upgrade Lyon District's billing software.⁶⁷ As previously stated, Commission Staff reviewed quotes for services by United Systems and found that Lyon District's proposed adjustment does not accurately reflect the Amortization Expense that will be incurred as a result of the services provided by United Systems based on quotes sent to Lyon District by United Systems, and that a decrease of \$639 was necessary to accurately reflect the cost of those services. Commission Staff recommends that this adjustment be accepted as it reflects evidence provided by Lyon District regarding the real cost of the software upgrade.

(O) Taxes Other Than Income. In its application, Lyon District proposed an increase of \$14,771 to Taxes Other Than Income to reduce payroll taxes and reclassify them to the proper account.⁶⁸ Commission Staff reviewed Lyon District's general ledger⁶⁹ and agrees that this reclassification better reflects taxes incurred by Lyon District. Thus, Commission Staff recommends that the Commission accept this adjustment as a known and measurable increase to Taxes Other Than Income. Lyon District also proposed a decrease of \$1,504 to Taxes Other Than Income to reflect changes to its payroll taxes as

⁶⁷ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference G.

⁶⁸ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference E.

⁶⁹ Lyon District's Response to Staff's First Request, Item 1a, General Ledger.

a result of the adjustment made to Salaries and Wages, as discussed previously.⁷⁰ Commission Staff recommends that this adjustment be accepted to account for the decrease in Taxes Other Than Income due to Salaries and Wages decreasing.

Finally, Lyon District proposed to reallocate \$467 from its Water Division to its Sewer Division.⁷¹ While Commission Staff agrees with the methodology used to determine the amount allocated, an error was identified in the calculation of this amount which understated it by \$79.⁷² Commission Staff corrected this error by increasing the allocation to the Sewer Division by that amount, resulting in an equal decrease of \$79 to the Water Division's Taxes Other Than Income. Commission Staff recommends that the Commission accept this change as it corrects a miscalculation made by Lyon District and more accurately states the amount that should be allocated based on the methodology presented by Lyon District and consistent with Commission precedent.

Sewer Division

Lyon District's Sewer Division Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.

⁷⁰ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference C.

⁷¹ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Reference D.

⁷² Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Reference D.

<i>Sewer Division</i>	(2022) Test Year	Lyon District Adjustment	Commission Adjustment	Total Adjustment	(Ref.)	Pro Forma
Operating Revenues						
Total Sewer Sales	\$ 23,463	\$ 878		\$ 878	(A)	\$ 24,341
Total Operating Revenues	23,463	878	0	878		24,341
Operating Expenses						
Operation and Maintenance Expenses						
Salaries	0	6,738		6,738	(C)	6,738
Employee Pensions and Benefits	0	2,405	(377)	2,028	(D)	2,028
Insurance	0	1,028		1,028	(E)	1,028
Pumping System	27,139					27,139
Total Operation and Maintenance Expenses	27,139	10,171	(377)	9,794		36,933
Depreciation Expense	21,693	(5,165)		(5,165)	(F)	16,528
Taxes Other Than Income	0	467	79	546	(G)	546
Total Operating Expenses	48,832	5,473	(298)	5,175		54,007
Net Operating Income	(25,369)	(4,595)	298	(4,297)		(29,666)
Income Available to Service Debt	\$ (25,369)	\$ (4,595)	\$ 298	\$ (4,297)		\$ (29,666)

(A) Billing Analysis. Lyon District proposed an adjustment to its test year general sewer sales revenues of \$23,463.⁷³ Commission Staff reviewed the billing analysis and an increase to test year general sewer sales revenues of \$878 should be made.⁷⁴ This adjustment establishes a normalized test year general sewer sales revenue of \$24,341. Commission Staff recommends that the Commission approve these adjustments.

(B) Allocation of Shared Expenses. Lyon District proposed the allocation of several shared expenses between its Water and Sewer Divisions based on the number of customers served by each division.⁷⁵ With necessary modifications made by Commission Staff, the Sewer Division's operating expenses have been increased by \$10,340. As discussed previously, Commission Staff finds that Lyon District's allocation

⁷³ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Reference A.

⁷⁴ Lyon District's Response to Staff's First Request, Item 18a, Billing Analysis.

⁷⁵ Lyon District's Response to Staff's First Request, Item 2.

methodology is consistent with Commission precedent, and that the adjustments as calculated in in the table below be accepted.

Description	Lyon District Proposed	Commission Staff Adjustment	Pro Forma Expense	Allocation		Adjustment Sewer Division
				Water Division 96.48%	Sewer Division 3.52%	
Wages - Employees	\$ 173,424	\$ -	\$ 173,424	\$ 167,319	\$ 6,105	
Wages - Officers	18,000	-	18,000	17,367	633	6,738
Employee Benefits	34,200	23,411	57,611	55,583	2,028	2,028
Ins - General Liability & Other	24,978	-	24,978	24,099	879	
Ins - Workers Comp	4,246	-	4,246	4,097	149	1,028
Taxes Other Than Income	15,503	-	15,503	14,957	546	546
Total	<u>\$ 270,351</u>	<u>\$ 23,411</u>	<u>\$ 293,762</u>	<u>\$ 283,422</u>	<u>\$ 10,340</u>	<u>\$ 10,340</u>

(C) Salaries. In its application, Lyon District proposed an increase of \$6,738 to its Sewer Division Salaries Expense as part of its reallocation of expenses from its Water Division to its Sewer Division.⁷⁶ As previously stated, Commission Staff finds that Lyon District’s methodology for reallocation of certain expenses is reasonable, and therefore recommends that the Commission accept Lyon District’s proposed adjustment.

(D) Employee Pensions and Benefits. In its application, Lyon District proposed an increase of \$2,405 to its Sewer Division Employee Pensions and Benefits expense as part of its reallocation of expenses from its Water Division to its Sewer Division.⁷⁷ As previously stated, Commission Staff finds that Lyon District’s methodology for reallocation of certain expenses is reasonable. However, due to adjustments made by Commission Staff to Lyon District’s Water Division Employee Pensions and Benefits, Commission Staff determined that the actual amount allocated to Lyon District’s Sewer Division should be \$2,028. This amount reflects the correct allocation of Lyon District’s Employee Pension and Benefits expense to its Sewer Division based upon the district’s percentage of total

⁷⁶ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Reference D.

⁷⁷ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Reference D.

customers that are sewer customers, and therefore, Commission Staff recommends that the adjustment be accepted.

(E) Insurance. In its application, Lyon District proposed an increase of \$1,028 to its Sewer Division Insurance expense as part of its reallocation of expenses from its Water Division to its Sewer Division.⁷⁸ As previously stated, Commission Staff finds that Lyon District's methodology for reallocation of certain expenses is reasonable, and therefore, recommends that the Commission accept Lyon District's proposed adjustment.

(F) Depreciation Expense. In its application, Lyon District proposed a decrease of \$5,165 to its Sewer Division Depreciation expense to reflect adjustments of asset service lives to midpoint of service life range set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled, *Depreciation Practices for Small Water Utilities* (NARUC Study).⁷⁹ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the 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. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff agrees with Lyon District's proposed adjustment and recommends accepting the decreased pro forma Depreciation expense by \$5,165.

⁷⁸ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Reference D.

⁷⁹ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Reference H.

(G) Taxes Other Than Income. In its application, Lyon District proposed an increase of \$467 to its Sewer Division Taxes Other Than Income as part of its reallocation of expenses from its Water Division to its Sewer Division.⁸⁰ As previously stated, Commission Staff finds that Lyon District's methodology for reallocation of certain expenses is reasonable. However, Commission Staff identified that Lyon District's calculation of Taxes Other Than Income to be allocated to its Sewer Division was not correct and understated the amount by \$79. Commission Staff corrected this miscalculation by increasing Sewer Division Taxes Other Than Income by an additional \$79 and recommends that this adjustment be accepted to adequately allocate Taxes Other Than Income incurred by Lyon District's Sewer Division.

OVERALL REVENUE REQUIREMENT

Water Division

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;⁸¹ (3) the

⁸⁰ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Adjustment D.

⁸¹ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense. The table below reflects Lyon District's and Commission Staff's calculated revenue requirement.

Description	Lyon County Water	Commission Staff
Pro Forma Operating Expenses	\$ 1,299,532	\$ 1,300,342
Plus: Average Annual Principal and Interest Payments	291,041	291,041
Additional Working Capital	58,208	58,208
Overall Revenue Requirement	<u>1,648,781</u>	<u>1,649,591</u>
Less: Other Operating Revenue ()	(25,080)	(20,356)
Interest Income ()	(1,064)	(1,064)
Revenue Required from Rates	1,622,637	1,628,171
Less: Pro Forma Present Rate Service Revenues ()	<u>(1,431,178)</u>	<u>(1,431,178)</u>
Required Revenue Increase	<u>\$ 191,459</u>	<u>\$ 196,993</u>
Percentage Increase	<u>13.38%</u>	<u>13.76%</u>

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Lyon District had one Kentucky Infrastructure Authority (KIA) loan, one United States Department of Agriculture (USDA) Rural Development (RD) loan, and one Regions loan.⁸² Lyon District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2024 through 2028.⁸³ Commission Staff agrees with the methodology Lyon District proposed and included \$291,041 in the calculation of the revenue requirement.

⁸² *Audit Report of Lyon District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Audit Report), at 20.

⁸³ Application, Exhibit A, Table B – Debt Service Schedule.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. Lyon District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual payments. Following the Commission's historic practice of including additional working capital, \$58,208 is included in the revenue requirement.

Sewer Division

The Operating Ratio methodology is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Commission Staff is of the opinion that an operating ratio of 88 percent will allow Lyon District sufficient revenues to cover its operating expenses and provide for reasonable equity growth.

By applying the Operating Ratio method, Commission Staff determined the Lyon District Sewer Division Overall Revenue Requirement to be \$61,372. Commission Staff calculated a revenue increase of \$37,031 or 152.13 percent, is necessary to generate the Overall Revenue Requirement. Commission Staff's calculation of the Overall Revenue Requirement and the Required Revenue Increase using the Operating Ratio method is shown below:

Description	Lyon County Sewer	Commission Staff
Pro Forma Operating Expenses	\$ 54,307	\$ 54,007
88% Operating Ratio	0.88	0.88
Overall Revenue Requirement	61,713	61,372
Less: Other Operating Revenue	0	0
Interest and Investment Income	0	0
Revenue Required from Rates	61,713	61,372
Less: Pro Forma Present Rate Service Revenues	(24,341)	(24,341)
Required Revenue Increase	\$ 37,372	\$ 37,031
Percentage Increase	153.53%	152.13%

Signatures

/s/ Tyler Holliday

Prepared by: Tyler Holliday
Revenue Requirement Branch
Division of Financial Analysis

/s/ Eddie Beavers

Prepared by: Eddie Beavers
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE
KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO.
2023-00352 DATED MAY 24 2024

Nonrecurring Charges Adjustments

Field Collection Charge

	Lyon Revised Charge	Staff Revised Charge
Field Labor	\$0.00	\$0.00
Supplies	1.00	1.00
Office Labor	5.00	0.00
Transportation Expense	6.00	6.00
Total Nonrecurring Charge Expense	\$12.00	\$7.00
Current Rate	\$30.00	

Meter Read-Out/Meter Reread Charge

	Lyon Revised Charge	Staff Revised Charge
Field Labor	\$0.00	\$0.00
Supplies	1.00	1.00
Office Labor	4.60	0.00
Transportation Expense	6.40	6.40
Total Nonrecurring Charge Expense	\$12.00	\$7.40
Current Rate	\$30.00	

Reconnection Charge

	Lyon Revised Charge	Staff Revised Charge
Field Materials Meter Lock	\$3.00	\$3.00
Field Labor	\$0.00	0.00
Supplies	1.00	1.00
Office Labor	4.60	0.00
Transportation Expense	6.40	6.40
Total Nonrecurring Charge Expense	\$15.00	\$10.40
Current Rate	\$10.00	

Meter Test

	Lyon Revised Charge	Staff Revised Charge
Field Labor at \$15. for 2.0 hour	\$0.00	\$0.00
Supplies	1.00	1.00
Office Labor	4.60	0.00
Transportation Expense	7.00	7.00
Shipping Charge	12.40	12.40
Meter Test Fee	15.00	15.00
Total Nonrecurring Charge Expense	\$40.00	\$35.40
Current Rate	\$37.00	

Returned Check Charge

	Lyon Revised Charge	Staff Revised Charge
Field Labor	\$0.00	\$0.00
Supplies	1.80	1.80
Office Labor	9.20	0.00
Transportation Expense	0.00	0.00
Bank Fee	6.00	6.00
Total Nonrecurring Charge Expense	\$17.00	\$7.80
Current Rate	\$30.00	

	Num.	Actual Test Year	Current Rate	Revised Rate	Adj	Pro Forma
Miscellaneous Service Revenues:						
Field Collection Charge	2	\$37.00	\$7.00	\$7.00	(23)	\$14
Meter Connection/Unlock Charge	193	\$6,050.00	\$10.00	\$10.40	(4,043)	\$2,007
Meter Read-Out Charge Recheck Charge	91	\$2,040.00	\$10.00	\$7.40	(1,367)	\$673
Meter Reread Charge	0	\$0.00	\$7.00	\$7.40	0	\$0
Meter Test Charge	0	\$0.00	\$37.00	\$35.40	0	\$0
Returned Check Charge	22	\$674.00	\$31.00	\$8.00	8	\$682
Total Miscellaneous Service Revenues		\$8,801			(\$5,424)	\$3,377

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE
KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO.
2023-00352 DATED MAY 24 2024

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

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$	31.06	Minimum Bill
Next	3,000 Gallons		0.01326	Per Gallon
Next	5,000 Gallons		0.00950	Per Gallon
Next	10,000 Gallons		0.00799	Per Gallon
Over	20,000 Gallons		0.00709	Per Gallon

1-Inch Meter

First	15,000 Gallons	\$	146.98	Minimum Bill
Next	5,000 Gallons		0.00799	Per Gallon
Over	20,000 Gallons		0.00709	Per Gallon

1 1/2-Inch Meter

First	25,000 Gallons	\$	199.77	Minimum Bill
Over	25,000 Gallons		0.00709	Per Gallon

2-Inch Meter

First	45,000 Gallons	\$	359.56	Minimum Bill
Over	45,000 Gallons		0.00709	Per Gallon

Nonrecurring Charges

Field Collection Charge	\$7.40
Meter Reconnection Charge	\$10.00
Meter Read-Out Charge Recheck Charge	\$7.40
Meter Reread Charge	\$7.40
Meter Test Charge	\$35.40
Returned Check Charge	\$8.00

Tap Fees

5/8-Inch x 3/4-Inch Meter Charge	\$1,265.00
1-Inch Meter Charge	\$1,680.00

Monthly Sewer Rates

		Phase 1	
First	2,000 Gallons	\$	22.61 Minimum Bill
Over	2,000 Gallons		0.00798 Per Gallon

		Phase 2	
First	2,000 Gallons	\$	30.21 Minimum Bill
Over	2,000 Gallons		0.01067 Per Gallon

		Phase 3	
First	2,000 Gallons	\$	37.84 Minimum Bill
Over	2,000 Gallons		0.01336 Per Gallon

Tap Fees

Sewer Connection	\$1,554.00
------------------	------------

*Ariel Baker
Kentucky Rural Water Association
Post Office Box 1424
1151 Old Porter Pike
Bowling Green, KENTUCKY 42102-1424

*Mathew Blane
Superintendent
Lyon County Water District
5464 U. S. Highway 62 West
P. O. Box 489
Kuttawa, KY 42055

*Robert K. Miller
Straightline Kentucky LLC
113 North Birchwood Ave.
Louisville, KENTUCKY 40206

*Lyon County Water District
5464 U. S. Highway 62 West
P. O. Box 489
Kuttawa, KY 42055

*Erica Perkins
Lyon County Water District
5464 U. S. Highway 62 West
P. O. Box 489
Kuttawa, KY 42055