

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF PEAKS MILL)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2023-00401
PURSUANT 807 KAR 5:076)	

ORDER

On December 6, 2023,¹ Peaks Mill Water District (Peaks Mill District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076.

In its application, Peaks Mill District requested rates that would increase its base rate revenue by \$151,691, or 20.86 percent to pro forma present rate water sale revenues.² Peaks Mill District also requested a \$3.59 per customer per month surcharge.³ Peaks Mill District utilized calendar year ended December 31, 2022, as the test year to determine the reasonableness of Peaks Mill District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated December 21, 2023,⁴ and amended by Order dated

¹Peaks Mill District tendered its application on December 4, 2023. By letter dated December 6, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on December 6, 2023.

² Application, Attachment 4.

³ Application, Attachment 2, Reasons for Application, at 12.

⁴ Order (Ky. PSC Dec. 21, 2023).

April 15, 2024.⁵ Peaks Mill District responded to three rounds of discovery.⁶ Peaks Mill District timely filed its response to all rounds of discovery. An informal conference (IC) was held March 4, 2024, to discuss water loss efforts and Peaks Mill District's proposed surcharge. A memorandum was filed in the record summarizing the IC.⁷

Commission Staff issued its report (Commission Staff's Report) on May 28, 2024,⁸ summarizing its findings and recommendations regarding Peaks Mill District's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that Peaks Mill District's adjusted test-year operations support an overall revenue requirement of \$976,326 and that a \$203,877 revenue increase, or 28.28 percent, to pro forma present rate revenues is necessary to generate the overall revenue requirement.⁹ The Commission notes that Commission Staff's Report included an incorrect Revenue Requirement chart, with a revenue requirement of \$208,657, and provided the updated chart in the Overall Revenue Requirement Section below. Commission Staff also recommend a Water Loss Reduction Surcharge of \$3.09 per customer per month. In the absence of a cost-of-service study (COSS), Commission Staff allocated its recommended revenue increase evenly across all customer classes to calculate its recommended water rates.

⁵ Order (Ky. PSC Apr. 15, 2024).

⁶ Peaks Mill District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Jan. 22, 2024); Peaks Mill District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Feb. 26, 2026). Peaks Mill District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Apr. 26, 2024).

⁷ PSC Letter Filing IC Memo into the Record (filed Mar. 13, 2024).

⁸ Commission Staff's Report (issued May 28, 2024).

⁹ Commission Staff's Report at 25, Revenue Requirement Table.

On June 11, 2024, Peaks Mill District filed its response to Commission Staff's Report.¹⁰ In its written comments, Peaks Mill District did not agree with removal of certain revenue projections and labor expenses from nonrecurring charges but did not contest the Commission Staff adjustments. Additionally, Peaks Mill District concurred with the findings presented in Commission Staff's Report and waived its right to request an informal conference or a hearing. Consistent with 807 KAR 5:076, Section 11(3)(f), because Peaks Mill District amended its application on June 11, 2024, when it accepted the revenue increase proposed by Commission Staff that exceeded the 110 percent threshold, Peaks Mill District was required to renounce its customers. Peaks Mill District filed the publisher's certificate of publication for the renounce on July 30, 2024, and the case now stands submitted for a decision by the Commission.¹¹

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."¹² Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

¹⁰ Peaks Mill District's Response to Staff Report (filed June 11, 2024).

¹¹ Publishers Certificate of Publication (filed July 30, 2024).

¹² *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).

BACKGROUND

Peaks Mill District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 1,200 residential customers and 12 commercial customers, that reside in Franklin and Owen counties, Kentucky.¹³ Peaks Mill District's last base rate increase occurred on May 1, 2012, in Case No. 2012-00008.¹⁴ Since that matter, Peaks Mill District has only adjusted its rates pursuant to purchased water adjustments.

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Peaks Mill District reported a water loss of 28.1063 percent.¹⁵ 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 Peaks

¹³ *Annual Report of Peaks Mill District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

¹⁴ Case No 2012-00008, *Application of Peaks Mill Water District for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC May 1, 2012).

¹⁵ 2022 Annual Report at 57.

Mill District is \$96,454, while the annual cost of water loss in excess of 15 percent is \$44,977.¹⁶

TEST PERIOD

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 330,623	\$ 12,554	\$ 343,177
Water Loss Percent	28.1063%	28.1063%	28.1063%
Total Water Loss	<u>\$ 92,926</u>	<u>\$ 3,528</u>	<u>\$ 96,454</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 330,623	\$ 12,554	\$ 343,177
Water Loss in Excess of 15%	13.1063%	13.1063%	13.1063%
Disallowed Water Loss	<u>\$ 43,332</u>	<u>\$ 1,645</u>	<u>\$ 44,977</u>

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarize Peaks Mill District's pro forma income statement as follows:

Description	<u>Commission Staff's Report</u>		
	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	756,237	14,217	770,454
Operating Expenses	1,014,999	(160,051)	854,948
Total Utility Operating Income	<u>(258,762)</u>	<u>174,268</u>	<u>(84,494)</u>

¹⁶ Commission Staff's Report at 2.

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Peaks Mill District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the recommendations contained in the Commission Staff's Report. The Commission has no further modifications. The following is the Commission Staff's complete pro forma.¹⁷

¹⁷ Commission Staff's Report at 12.

Description	Test Year	Proposed Adjustments	Commission	Total Adjustments (Ref.)	Pro Forma
			Staff Adjustments		
Operating Revenues					
Sales of Water	\$ 717,547	\$ (7,627)		\$ (7,627) (A)	
		17,395	(17,395)	0 (A)	
			11,115	11,115 (A)	\$ 721,035
Late Payment Penalties	0	12,873		12,873 (B)	12,873
Miscellaneous Service Revenues	38,690	(12,873)		(12,873) (B)	
Elkhorn Mgmt Fee		9,235		9,235 (C)	
Rental Income		1,200		1,200 (C)	
			294	294 (C)	36,546
Total Operating Revenues	756,237	20,203	(5,986)	14,217	770,454
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	77,434	7,559		7,559 (D)	
		(8,916)		(8,916) (D)	
			(8,500)	(8,500) (D)	67,577
Salaries and Wages - Officers	10,800		(10,800)	(10,800) (E)	
Employee Pensions and Benefits	7,149	(7,149)		(7,149) (F)	0
Purchased Water	380,510	(10,142)	386	(9,756) (G1)	
		(96,120)	96,120	0 (G2)	
			(14,484)	(14,484) (G3)	
			(25,647)	(25,647) (G4)	
		(49,871)	6,539	(43,332) (G5)	
				0 (G6)	287,291
Purchased Power	12,554	(1,645)		(1,645) (H)	10,909
				0	
Lab Testing	4,150		(2,556)	(2,556) (I)	1,594
Contractual Services - Acct.	9,308			0	9,308
Contractual Services - Other	301,284	(18,785)		(18,785) (J1)	
		30,000		30,000 (J2)	
		78,000		78,000 (J3)	
		(125,551)		(125,551) (J4)	264,948
Materials	0	48,330		48,330 (K)	
		(8,400)		(8,400) (K)	
		(8,000)		(8,000) (K)	31,930
Rental of Bldg/Real Property	14,350	50		50 (L)	14,400
Insurance - General Liability	13,113			0	13,113
Advertising Expenses	217			0	217
Miscellaneous Expense	29,261	(3,444)		(3,444) (M)	
		(2,556)		(2,556) (M)	
			2,556	2,556 (I)	25,817
Total Operation and Maintenance Expense	860,130	(176,640)	43,614	(133,026)	727,104
Depreciation	153,731	(37,027)		(37,027) (N)	
		(147)		(147) (N)	116,557
Amortization Expense	0	0	3,000	3,000 (O)	3,000
Taxes Other Than Income	1,138	7,149		7,149 (P)	8,287
Total Operating Expenses	1,014,999	(206,665)	46,614	(160,051)	854,948
Net Operating Income	(258,762)	226,868	(52,600)	174,268	(84,494)
Interest Income	0		1,995	1,995 (Q)	1,995
Income Available to Service Debt	\$ (258,762)	\$ 226,868	\$ (50,605)	\$ 176,263	\$ (82,499)

PRO FORMA OPERATING STATEMENT

Total Retail Metered Sales. In its application, Peaks Mill District reported Total Retail Metered Sales as \$717,547.¹⁸ Peaks Mill District proposed two adjustments. First, it proposed a decrease of \$7,627 to reconcile to amounts calculated by the Billing Analysis under current rates.¹⁹ Commission Staff reviewed the calculations and confirmed the adjustment. Commission Staff recommended that the Commission accept the proposed adjustment.²⁰

Peaks Mill District also proposed an increase of \$17,395 to reflect an estimate of post-test year revenue increases that are anticipated because of an increase in customers as well as the changeout of older, under-registering meters with new, more accurate meters.²¹ Peaks Mill District did not provide supporting documentation for the calculation or assumptions utilized to derive its proposed \$17,395 adjustment. Commission Staff recommended that the Commission deny this proposed adjustment because it is not known and measurable.

During the pendency of this application, Peaks Mill District filed a Purchased Water Adjustment (PWA) in Case No. 2024-00102 that amended rates as of May 8, 2024.²² Commission Staff included this adjustment in this analysis and increased metered water sales by \$11,115 to account for the increased revenue. Commission Staff recommends

¹⁸ Application, Attachment #4, Schedule of Adjusted Operations.

¹⁹ Application, Attachment #4, Schedule of Adjusted Operations, Reference A.

²⁰ Commission Staff's Report at 13.

²¹ Explanation of Adjustment to Total Retail Metered Sales (filed Mar. 26, 2024).

²² See Case No. 2024-00102, *Electronic Purchased Water Adjustment Filing of Peaks Mill Water District* (Ky. PSC May 8, 2024).

that the Commission accept this proposed adjustment because it is known and measurable.

The Commission finds the following recommended adjustments and the normalized revenue to be reasonable and approves the adjustment to reconcile the billing amounts as well as an \$11,115 adjustment related to the PWA. Conversely, the Commission finds that the proposed adjustment for an estimated post-test increase in revenue should be denied. The Commission cannot approve adjustments that speculate on an increase in customers or the effect of changeout of older, under-registering meters with new, more accurate meters. Such adjustments are not known or measurable and fall outside of the test year. Peaks Mill District did not present sufficient evidence for the Commission to find differently.

Forfeited Discounts. In its application, Peaks Mill District proposed a \$12,873 reclassification of late fees from Misc. Service Revenues to Forfeited Discounts.²³ Commission Staff recommended accepting the reclassification based on the information in the record. The Commission finds this reclassification to be reasonable and should be accepted because it corrects an error and conforms to general accounting principles.

Miscellaneous Revenues. Peaks Mill District reported test-year miscellaneous revenues of \$38,690 and proposed two adjustments in addition to the removal of \$12,873 for the forfeited discounts reclassification above.²⁴ First, Peaks Mill District proposed an increase of \$9,235 to reflect an increase in management fees paid to Elkhorn Water

²³ Application, Attachment #4, Schedule of Adjusted Operations, Reference B.

²⁴ Application, Attachment #4, Schedule of Adjusted Operations.

District.²⁵ Second, Peaks Mill District sought to increase revenues by \$1,200 to reflect a new income source for tower rental to a broadband provider.²⁶

Additionally, Commission Staff proposed an increase of \$294 as a reconciliation from test year Nonrecurring Charge Revenue to Pro Forma Test Year Revenue as shown in the chart below. These miscellaneous revenue adjustments result in a Pro Forma amount of \$36,546. Commission Staff recommended that the Commission accept these adjustments as consistent with past Commission practices²⁷ in removing field labor and office/clerical labor costs from the individual nonrecurring charges and the other identified pro forma miscellaneous service revenue amounts that are known and measurable.²⁸

²⁵ Application, Attachment #4, Schedule of Adjusted Operations, Reference J.

²⁶ Application, Attachment #4, Schedule of Adjusted Operations, Reference K.

²⁷ 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).

²⁸ Commission Staff's Report at 14.

	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Transfer Fee	62	\$25.00	\$42.00	\$1,054	\$2,604
Reconnection Fee	56	\$50.00	\$42.00	(\$448)	\$2,352
Service Line Inspection	0	\$50.00	\$59.00	\$0	\$0
Service Call/Investigation	0	\$65.00	\$59.00	\$0	\$0
Returned Check Fee	24	\$25.00	\$12.00	(\$312)	\$288
Meter Test Fee	0	\$75.00	\$159.00	\$0	\$0
Meter Re-read Charge	0	\$25.00	\$42.00	\$0	\$0
Meter/Service Relocation	0	Actual Cost	Actual Cost	\$0	\$0
Pro Forma Test Year NRC Revenue					\$5,244
Less: Test Year NRC Revenue					\$4,950
Adjustment					<u>\$294</u>

The Commission finds that Commission Staff's recommendations are consistent with recent Commission decisions that labor expenses resulting from work occurring during normal business hours should not be recovered through nonrecurring charges.²⁹ The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred and recovered in customer rates as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours. Thus, the Commission finds that the revised nonrecurring charges set forth in Appendix B to this Order and the increase of \$294 to Miscellaneous Revenues is reasonable and should be accepted.

Salaries and Wages - Employees. Peaks Mill District reported a test-year amount of \$77,434 for Salaries and Wages – Employees.³⁰ During the test year, Peaks Mill

²⁹ See Case No.2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 19–20.

³⁰ Application, Attachment #4, Schedule of Adjusted Operations.

District employed four part-time employees and one full-time employee.³¹ Peaks Mill District proposed two adjustments. The first adjustment increased wages by \$7,559 for increases in wage rates.³² The second adjustment decreased wages by \$8,916 due to a decision not to replace the full-time position when it was vacated at the end of May 2023.³³ This decision resulted in a net decrease of hours worked.³⁴

Additionally, Commission Staff recalculated the wage amount based on 2023 hours and pay rates resulting in a reduction of wages by \$8,500 to reach the pro-forma wage amount as shown in the table below. Commission Staff recommended that the Commission accept the proposed adjustments because the amounts are known and measurable.³⁵

Position	Test Year Wages	Commission Staff Pro Forma Wages
1	\$ 29,107	\$ 31,230
2	10,642	14,123
3	11,851	12,812
4	22,660	0
5	3,175	9,413
Rounding	(1)	(1)
Total	77,434	\$ 67,577
Wage Rate Increase	7,559	
Adjust Wages for Position Elimination	(8,916)	
	<u>76,077</u>	
Commission Staff Adjustment	(8,500)	
Pro Forma	<u>\$ 67,577</u>	

³¹ Response to Staff's First Request, Item 1f Jobs and Pay PDF.

³² Application, Attachment #4, Schedule of Adjusted Operations, Reference C.

³³ Application, Attachment #4, Schedule of Adjusted Operations, Reference L.

³⁴ Peaks Mill District's Response to Staff's Second Request, Item 4.

³⁵ Commission Staff's Report at 16.

The Commission finds that the Commission Staff’s pro forma adjustment is reasonable and accepts the adjustment. The adjustments reflect a known and measurable change.

Salaries and Wages - Officers. Peaks Mill District reported a test-year amount of \$10,800 for Salaries and Wages – Officers and did not propose any adjustments.³⁶ Peaks Mill District stated that the fiscal court does not list salaries when a new commissioner is appointed or reappointed, and the Chairman of the board of commissioners, who has been a commissioner since January 1, 2003, stated that he has always received \$300 per month.³⁷ Peaks Mill District stated the “Franklin County Fiscal Court Clerk was unable to locate minutes that authorize the annual compensation for each commissioner”.³⁸ KRS 74.020(6) states that “[e]ach commissioner shall receive an annual salary of not more than thirty-six hundred dollars (\$3,600)” and that “[i]n fixing and approving the salary of the commissioners, the county judge/executive and the fiscal court shall take into consideration the financial condition of the district and its ability to meet its obligations as they mature.”³⁹

Commission Staff recommended the Commission not include commissioner salaries and remove \$10,800 from the revenue requirement because Peaks Mill District did not provide evidence of Fiscal Court approval to support the compensation amounts as required by KRS 74.020(6).

³⁶ Application, Attachment #4, Schedule of Adjusted Operations.

³⁷ Peaks Mill District’s Response to Staff First Request, Item 1k.

³⁸ Peaks Mill District’s Response to Staff First Request, Item 1k.

³⁹ KRS 74.020(6), Appointment of commissioners – Number – Terms – Removal – Vacancies – Organization – Bond – Compensation – Mandatory Training – Notice of Vacancy.

The Commission finds Commission Staff's recommended adjustment is consistent with KRS 74.020(6), and the removal of Peaks Mill District's commissioners' pay from its revenue requirement is reasonable and should be accepted. The Commission notes that the removal of this expense from the revenue requirement does not prevent Peaks Mill District from addressing the issue with the fiscal court in the future.

Employee Pension and Benefits. Peaks Mill District reported a test-year amount of \$7,149 for Employee Pension and Benefits. Peaks Mill District does not provide any Benefits, as all its employees are part-time.⁴⁰ As such, it proposed to reclassify the \$7,149 to Taxes Other Than Income as the amount represents the employer match for Social Security and Medicare taxes.⁴¹

Commission Staff recommended accepting the proposed reclassification given that Peak Mill District does not provide benefits to its employees.⁴²

The Commission finds Peaks Mill District's proposed reclassification is appropriate as Peaks Mill District does not provide benefits to its employees and should not have any expense in that category.

Purchased Water. Peaks Mill District reported a test year amount of \$380,510 Purchased Water Expense.⁴³ Peaks Mill District currently purchases water from the Frankfort Plant Board and from Kentucky American Water Company (Kentucky-American).⁴⁴ Peaks Mill District proposed three adjustments to purchased water. A

⁴⁰ Peaks Mill District's Response to Staff's First Request, Item 2.

⁴¹ Application, Attachment #4, Schedule of Adjusted Operations, Reference D.

⁴² Commission Staff's Report at 17.

⁴³ Application, Attachment #4, Schedule of Adjusted Operations.

⁴⁴ 2022 Annual Report at 54.

summary chart of adjustments with cross references follows this discussion. First, it proposed a \$49,871 reduction for costs in excess of 15 percent water loss.⁴⁵ Second, it proposed a \$96,120 reduction “based on reduced leakage” and provided evidence of reduced purchase quantity for all of 2023.⁴⁶ Third, it proposed a \$10,142 reduction for the estimated impact of a contract adjustment with Frankfort Plant Board related to reduced flushing.⁴⁷

Commission Staff agreed that adjustments should be made for the cost of water loss in excess of 15 percent, for cost reductions that result from purchasing more water from Frankfort Plant Board and less from Kentucky American, the estimated flushing credit from Frankfort Plant Board based on Peaks Mill District’s agreement with the Frankfort Plant Board, and the purchased water adjustment from Case No. 2024-00102.⁴⁸ However, Commission Staff did not agree with Peaks Mill District’s methodology because (1) it did not reduce the cost of water before applying the calculation for amounts in excess of 15 percent water loss; and (2) it did not properly account for the reduction in consumption in 2023 in its application because Peaks Mill District did not identify reduced flushing volume, changes in water loss performance, and customer sales volume changes, all of which have different cost effects for ratemaking purposes.

Commission Staff reviewed purchases for 2022 and 2023 to determine the average cost from each supplier and the change in percentage of purchases made from

⁴⁵ Application, Attachment #4, Schedule of Adjusted Operations, Reference E.

⁴⁶ Application, Attachment #4, Schedule of Adjusted Operations, Reference M.

⁴⁷ Application, Attachment #4, Schedule of Adjusted Operations, Reference N.

⁴⁸ See Case No. 2024-00102, *Electronic Purchased Water Adjustment Filing of Peaks Mill Water District* (Ky PSC May 8, 2024), Order.

the two suppliers. In total, Commission Staff made five adjustments as shown in the table below. First, it reduced purchased water costs by \$386 for the revised amount proposed by Peaks Mill District for the flushing adjustment related to its contract with Frankfort Plant Board.⁴⁹ Second, it reduced purchased water costs by \$14,484 reflecting changes in the percentage of water purchased from the Frankfort Plant Board and Kentucky-American, including adjustments for the increased purchased water costs from Kentucky-American. Third, it reduced purchased water costs for the post-test-year performance improvement of \$25,647 due to reduced flushing volume based on preliminary water statistics for 2023 provided by Peaks Mill District. Fourth, Commission Staff increased water loss costs in excess of 15 percent by \$6,539 to adjust the costs associated with the test-year water loss in excess of 15 percent, which is not permitted for ratemaking purposes. The total disallowed purchased water costs after Commission Staff's adjustments in excess of 15 percent is \$43,332.

Description	Peaks Mill District	Commission Staff	Difference
Test Year Water Purchases	\$ 380,510	\$ 380,510	\$ -
Peaks Mill District's Net Cost and Water Loss Adjustment	(96,120)	n/a	96,120
Calculated Flush Credit Test Volume	(10,142)	(9,756)	386
Purchase Mix Impact at Revised KY American Cost		(14,484)	(14,484)
Reduction in Flush Volume - Process Improvements		(25,647)	(25,647)
Cost Net of Adjustment Impacts	274,248	330,623	56,375
Water Loss Costs in Excess of 15%	(49,871)	(43,332)	6,539
Pro Forma	<u>\$ 224,377</u>	<u>\$ 287,291</u>	<u>\$ 62,914</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 330,623	\$ 12,554	\$ 343,177
Water Loss in Excess of 15%	13.1063%	13.1063%	13.1063%
Disallowed Water Loss	<u>\$ 43,332</u>	<u>\$ 1,645</u>	<u>\$ 44,977</u>

⁴⁹ Peaks Mill District's Response to Staff's First Request, Item 7d.

The Commission finds Commission Staff's adjustments reasonable because Peaks Mill District provided sufficient evidence of its flush credit change, purchase mix change, and reduction in flush volume. The expenses are reasonable because they reflect the current purchase water rates for Peaks Mill District and the actual test-year water loss. The Commission accepts the Commission Staff's adjustments to purchased water expenses.

Purchased Power. Peaks Mill District reported a test-year amount of \$12,554 for Purchased Power and proposed a decrease of \$1,645 for water loss above 15 percent.⁵⁰

Commission Staff recommended approval of the adjustment because it is consistent with Commission regulation 807 KAR 5:066, Section 6(3), which 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 Commission finds Peaks Mill District's adjustment, as recommended by the Commission Staff, to Purchased Power expense is reasonable as it reflects the actual test-year water loss as well as reflecting the maximum allowable water loss expense collected for ratemaking purposes of 15 percent.

Lab Testing. Peaks Mill District reported a test-year amount of \$4,150 (misabeled as Chemicals) and proposed no adjustments to the account.⁵¹ However, Peaks Mill District proposed a reduction of \$2,556 to Miscellaneous Expense and noted that it was to reflect reduced laboratory costs.⁵²

⁵⁰ Application, Attachment #4, Schedule of Adjusted Operations, Reference E.

⁵¹ Application, Attachment #4, Schedule of Adjusted Operations.

⁵² Application, Attachment #4, Schedule of Adjusted Operations, Reference W.

Commission Staff reclassified the proposed adjustment to reduce lab testing costs and negated Peaks Mill District's adjustment to Miscellaneous Expenses. Commission Staff recommended the Commission accept the adjustment.⁵³

The Commission finds that Commission Staff's recommended adjustment is reasonable and should be adjusted, and Peaks Mill District's Lab Testing should be decreased by \$2,556 and Miscellaneous Expense should be increased by \$2,556 to reflect the reduced laboratory costs being reclassified as Lab Testing rather than Miscellaneous Expense.

Contractual Services - Other. Peaks Mill District reported a test-year amount of \$301,284 for Contractual Services – Other.⁵⁴ Peaks Mill District proposed four adjustments for a net decrease of \$36,336, which results in a pro forma amount of \$264,948 as shown in the table below. Peaks Mill District proposed a decrease of \$18,785 (J1) for removal of new service tap fees and a decrease of \$125,551 (J4) for reducing usage and eliminating materials costs from contractual services.⁵⁵ Additionally, it proposed an increase of \$30,000 (J2) for BlueWater Kentucky engineering and consulting services, and an increase of \$78,000 (J3) for a licensed operator contractor.⁵⁶

Commission Staff recommended the Commission accept Peaks Mill District's adjustments based on review of information submitted in the record and because the amounts are known and measurable.

⁵³ Commission Staff's Report at 21.

⁵⁴ Application, Attachment #4, Schedule of Adjusted Operations.

⁵⁵ Application, Attachment #4, Schedule of Adjusted Operations, References F and Q.

⁵⁶ Application, Attachment #4, Schedule of Adjusted Operations, References O and P.

Description	Amount
Test Year	\$ 301,284
Capitalize Tap Fees ()	(18,785)
Lower Usage and Reduction in Materials	(125,551)
BlueWater Kentucky (engineering and management services)	30,000
C&L Consulting (O&M, licensed operator)	78,000
Pro Forma	<u>\$ 264,948</u>

The Commission finds Peaks Mill District’s recommended adjustments are reasonable and Peaks Mill District’s Contractual Services – Other should be decreased by \$36,336 because Peaks Mill District provided evidence to support their contractual service expenditures.

Materials. Peaks Mill District reported a test-year amount of \$0 for Materials⁵⁷ but proposed three adjustments to the account for a net increase of \$31,930. Peaks Mill District proposed an increase of \$48,330 to the cost of Materials included in Contractual Services.⁵⁸ This amount is embedded in the decrease of \$125,551 (J4) discussed previously. Peaks Mill District also proposed a decrease of \$8,400 to reflect the lower cost of materials used in service installations and a decrease of \$8,000 for of the value of initial inventory buildup during the test year.⁵⁹

Commission Staff reviewed the general ledger and found no issues with these adjustments.⁶⁰ Commission Staff recommended the Commission accept Peaks Mill

⁵⁷ Application, Attachment #4, Schedule of Adjusted Operations.

⁵⁸ Application, Attachment #4, Schedule of Adjusted Operations, Reference R.

⁵⁹ Application, Attachment #4, Schedule of Adjusted Operations, References S and T.

⁶⁰ Peaks Mill District’s Response to Staff’s First Request, Item 1a, 2022 General Ledger.

District's adjustments based on review of information submitted in the record and because the amounts are known and measurable.⁶¹

The Commission finds Peaks Mill District's adjustments to Materials expense reasonable as Peaks Mill District provided sufficient evidence to support the test year adjustment and should be accepted.

Rental of Bldg/Real Property. Peaks Mill District reported a test-year amount of \$14,350 for Rental of Bldg/Real Property.⁶² It proposed one adjustment to the account for an increase of \$50 due to increased lease costs.⁶³

Commission Staff recommended the Commission accept Peaks Mill District's proposed adjustment based on review of information submitted in the record which showed the amount to be known and measurable.⁶⁴

The Commission finds Peaks Mill District's adjustment reasonable and should be accepted as Peaks Mill District provided sufficient evidence to support the adjustment.

Miscellaneous Expenses. Peaks Mill District reported a test-year amount of \$29,261 for Miscellaneous Expenses.⁶⁵ It proposed two decreases totaling \$6,000. The first proposed adjustment was to decrease telephone and internet costs by \$3,444 for

⁶¹ Commission Staff's Report at 22.

⁶² Application, Attachment #4, Schedule of Adjusted Operations.

⁶³ Application, Attachment #4, Schedule of Adjusted Operations, Reference U.

⁶⁴ Commission Staff's Report at 22.

⁶⁵ Application, Attachment #4, Schedule of Adjusted Operations.

lower phone and internet costs.⁶⁶ The second proposed adjustment reduced lab costs by \$2,556.⁶⁷

Commission Staff reclassified to Lab Testing as discussed in the Lab Testing section above. Commission Staff recommended the Commission accept the proposed adjustment for reduced telephone and internet costs and reject the second adjustment as the amount was reclassified to Lab Testing.⁶⁸

The Commission agrees with Commission Staff's recommendation to decrease Miscellaneous Expense by a total of \$3,444 and accepts the adjustment.

Depreciation Expense. Peaks Mill District reported a test-year amount of \$153,731 for Depreciation Expense.⁶⁹ It proposed two adjustments. First, Peaks Mill District proposed a decrease of \$37,027 for asset lives that fall outside ranges recommended by National Association of Regulatory Utility Commissioners (NARUC).⁷⁰ Second, it proposed a \$147 decrease to reconcile the Annual Report to the Depreciation Register.⁷¹

Commission Staff recommended accepting the proposed adjustments based on review of information submitted in the record as the amounts are known and measurable.⁷²

⁶⁶ Application, Attachment #4, Schedule of Adjusted Operations, Reference V.

⁶⁷ Application, Attachment #4, Schedule of Adjusted Operations, Reference W.

⁶⁸ Commission Staff's Report at 23.

⁶⁹ Application, Attachment #4, Schedule of Adjusted Operations.

⁷⁰ Application, Attachment #4, Schedule of Adjusted Operations, Reference G.

⁷¹ Application, Attachment #4, Schedule of Adjusted Operations, Reference G.

⁷² Commission Staff's Report at 23.

The Commission finds that the first proposed adjustment and decrease of Depreciation Expense in the amount of \$37,027 is reasonable and should be accepted given that there is no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. The Commission finds that the second proposed adjustment and proposed decrease of \$147 to Depreciation Expense is a known and measurable change and is accepted.

Amortization Expense. Subsequent to the application filing, Peaks Mill District requested the cost of the rate study for this case be included in the revenue requirement as a contractual expense and amortized over three years.⁷³ The cost of the rate study was \$9,000, and the proposed amortization period of three years results in an increase of \$3,000 per year.

After review of the information submitted in the record, Commission Staff recommended accepting the proposed adjustment, but classified it as a known and measurable amortization expense, as the amount is known and measurable.

The Commission finds Peaks Mill District's adjustment reasonable and therefore accepts the adjustment.

Taxes Other Than Income. Peaks Mill District reported a test-year amount of \$1,138 for Taxes Other Than Income and proposed one adjustment to reclassify \$7,149 from benefits to taxes as previously discussed in the Employee Pensions and Benefits section above.⁷⁴

⁷³ Peaks Mill District's Request to Include Cost of Rate Study in Revenue Requirement (filed Jan. 22, 2024).

⁷⁴ Application, Attachment #4, Schedule of Adjusted Operations, Reference D.

Commission Staff recommended the Commission accept Peaks Mill District's proposed adjustment as the amount is known and measurable based on the discussion in the Employee Pensions and Benefits section above.⁷⁵

The Commission finds Peaks Mill District's proposed reclassification is reasonable as the expense should be reported in the proper account.

Interest Income. Peaks Mill District reported interest income of \$1,581 in its application Revenue Requirement⁷⁶ but did not show an amount on its Statement of Adjusted Operations (SAO). Commission Staff identified interest income of \$1,995 reported in Peaks Mill District's Trial Balance during its review.⁷⁷

Commission Staff made an adjustment of \$414 to correct the test-year amount to the \$1,995 amount in the Trial Balance. Commission Staff recommended the Commission accept Commission Staff's proposed adjustment because that amount is the correct value.⁷⁸

The Commission finds Commission Staff's adjustment reasonable because it reflects the correct Interest Income and therefore accepts the adjustment.

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2)

⁷⁵ Commission Staff's Report at 24.

⁷⁶ Application, Attachment #4, Revenue Requirements.

⁷⁷ Peaks Mill District's Response to Staff's First Request, Attachment 1a_Trial_Balances.

⁷⁸ Commission Staff's Report at 24.

recovery of depreciation expense, a non-cash item, to provide working capital;⁷⁹ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense. Commission Staff notes the chart below this section included in the Staff Report was incorrect and included the corrected one below.

Description	Peaks Mill Water Application	Commission Staff
Pro Forma Operating Expenses	\$ 808,334	\$ 854,948
Average Annual Principal and Interest Payments	101,148	101,148
Additional Working Capital	20,230	20,230
Overall Revenue Requirement	929,712	976,326
Forfeited Discounts ()	(12,873)	(12,873)
Miscellaneous Service Revenue ()	(36,252)	(36,546)
Interest Income ()	(1,581)	(1,995)
Revenue Required from Rates	879,006	924,912
Pro Forma Present Rate Service Revenues ()	(727,315)	(721,035)
Required Revenue Increase	\$ 151,691	\$ 203,877
Percentage Increase	20.86%	28.28%

Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Peaks Mill District reported two bonds and one Kentucky Infrastructure

⁷⁹ 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).

Authority (KIA) note outstanding. Peaks Mill District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, interest, and fee payments for the years 2024 through 2028.⁸⁰

Commission Staff agreed with the methodology Peaks Mill District proposed and included \$101,148 in the calculation of the revenue requirement.

The Commission finds that including \$101,148 in the revenue requirement calculation for average annual principal, as well as interest and fee payments for debt obligations is known and measurable and is accepted.

Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its exhibits, Peaks Mill District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments, or \$20,230.⁸¹

Following the Commission's historic practice⁸² of including additional working capital, Commission Staff agreed with Peaks Mill District's proposed \$20,230 working capital adjustment and included it in the revenue requirement.

⁸⁰ Application, Attachment #4, Revenue Requirements Form.

⁸¹ Application, Attachment #4, Revenue Requirements Form.

⁸² Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Nov. 17, 2023). Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan.11, 2024). Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).

Average Annual Principal and Interest	\$ 101,148
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	121,378
Less: Average Annual Principal and Interest Payment	<u>(101,148)</u>
Additional Working Capital	<u><u>20,230</u></u>

The Commission finds that including additional working capital of \$20,230 in the revenue requirement calculation is reasonable and is accepted. Inclusion of additional working capital is consistent with the Commission’s practice, and no evidence was presented to require the Commission to deviate from the calculation.

RATE DESIGN

Monthly Water Service Rates. Peaks Mill District proposed to increase its monthly retail and wholesale water service rates using a cost-of-service study (COSS) that it prepared in 2023.⁸³ The rates in the COSS were developed following the commodity-demand methodology that is recognized in the Manual M-1 published by the American Water Works Association. Through this method, Peaks Mill District allocated the overall revenue requirement to Peaks Mill District’s customer classes in proportion to the cost of providing service to those customer classes. This method recognizes that a utility must meet peak demand requirements as well as the customer’s average water use. Peaks Mill District utilized the COSS to propose a new rate structure that differs from its current single rate for all customers and meter sizes.⁸⁴ Peaks Mill District’s proposed rate structure differentiates its rates based on the size of meter that is used to provide service

⁸³ Peaks Mill District’s Response to Staff’s First Request, Item 6d.

⁸⁴ Peaks Mill District’s Response to Staff’s First Request, Item 6b.

to its customers.⁸⁵ Peaks Mill District's proposed rate design adds rates for meter sizes larger than 5/8-inch x 3/4-inch and includes monthly minimums for 1-inch, 1 1/2-inch, 2-inch, 3-inch, and 4-inch customers.

Commission Staff agreed with the proposed methodology and utilized the COSS, provided by Peaks Mill District, as a guide to allocate the \$203,877 revenue increase to the monthly retail water service rates.

The rates, as calculated by Commission Staff, which are set forth in Appendix B to Commission Staff's report, are based upon the revenue requirement, and will produce sufficient revenues from water sales to recover the \$924,912 Revenue Required from Rates. The rates will increase a typical residential customer's water bill from \$48.02 to \$61.22, an increase of \$13.20, or approximately 27.49 percent.⁸⁶ Additionally, including the Commission Staff's recommended surcharge of \$3.09, the rates will increase a typical residential customer's water bill from \$48.02 to \$64.31, an increase of \$16.29 or approximately 33.92 percent.⁸⁷

The Commission finds that the revenue requirement and rates contained in Appendix B are fair, just and reasonable.

Nonrecurring Charges. The Commission Staff's Report noted that contrary to Commission precedent, estimated labor expenses incurred for work during normal business hours were included in the estimates used to determine the amount of Peak Mill

⁸⁵ Peaks Mill District's Response to Staff's First Request, Item 6b.

⁸⁶ The typical residential customer uses approximately 4,000 gallons per month. Application, Attachment 1.

⁸⁷ The typical residential customer uses approximately 4,000 gallons per month. Application, Attachment 1.

District's nonrecurring charges.⁸⁸ Commission Staff reviewed the cost justification information provided by Peaks Mill District and recommended that Peak Mill District's nonrecurring charges be reduced to reflect the removal of Office/Clerical Labor Costs from those charges that occur during normal business hours.⁸⁹ Peaks Mill District indicated that the cost of Field Labor is paid through contract and therefore should be included in the calculation of Nonrecurring Charges.⁹⁰ The table that shows the calculations can be found in Appendix A of this Order.

The Commission finds that these adjustments are reasonable because the evidence filed into the case record and is consistent with existing precedent.⁹¹

Tap Fees. Commission Staff reviewed the Tap Fee cost justification information provided by Peaks Mill District in response to Staff's First Request.⁹² Peaks Mill District revised the 5/8- x 3/4-Inch Meter Tap Fee cost justification with a supplemental filing for a 5/8- x 3/4-Inch Meter Tap Fee for short side cost justification and for a 5/8- x 3/4-Inch Meter Tap Fee long side cost justification.⁹³ The cost justification sheets for Tap Fees has the provision to account for the installation of taps on the main located on the road

⁸⁸ Peaks Mill District's Response to Staff's First Request, Item 9.

⁸⁹ Peaks Mill District's Response to Staff's First Request, Item 9.

⁹⁰ Peaks Mill District's Response to Staff's First Request, Item 9.

⁹¹ 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).

⁹² Peaks Mill District's Response to Staff's First Request, Item 10.

⁹³ Peaks Mill District's Supplemental Response to Staff's First Request (filed Feb. 15, 2024), Items 10a and 10b.

closest to the meter vault, the short side, and for the installation of taps on the main located on the road that is furthest to the meter vault, the long side.⁹⁴ Peaks Mill District explained that a service tap fee based on the average cost of short and long services may not be fair, just and reasonable.⁹⁵ Peaks Mill District argued that a review of the tapping expenses during 2022 and 2023 shows that long-side services were significantly more expensive due to length, rock, boring, and terrain.⁹⁶ Therefore, Peaks Mill District requested that the tapping fee of for 3/4-inch service taps be bifurcated into two different fees.⁹⁷ Peaks Mill District did not provide notice of such request to customers nor did it request a deviation of the notice requirement for a tariff revision affecting rates or services.

Commission Staff noted that Peaks Mill District's current tariff contains specific language intended to recover actual costs in instances where length, rock, boring and terrain are encountered.⁹⁸ Therefore, Commission Staff recommended that the Commission deny the request to bifurcate its tap-fees into short side and long side installations due to the fact that, according to its current tariff, Peaks Mill District recovers the actual costs for instances where length, rock, boring and terrain are encountered anyway.⁹⁹ Recovery of such costs in the tap-fees and recovery of actual costs, according to the tariff, would be imprudently incurred and result in recovery of unnecessary additional revenue. Commission Staff directed Peaks Mill District to its current tariff and

⁹⁴ Peaks Mill District's Response to Staff's First Request, Item 10.

⁹⁵ Peaks Mill District's Supplemental Response to Staff's First Request, Cover Letter.

⁹⁶ Peaks Mill District's Supplemental Response to Staff's First Request, Cover Letter.

⁹⁷ Peaks Mill District's Supplemental Response to Staff's First Request, Cover Letter.

⁹⁸ Peaks Mill District's current tariff, Original Sheet No. 10, Connection Fee.

⁹⁹ Peaks Mill District's current tariff, Original Sheet No. 10, Connection Fee.

recommends that if Peaks Mill District requests to bifurcate its tap-fees, then it should also remove the language for recovering the actual costs for instances where length, rock, boring and terrain are encountered.¹⁰⁰

The Commission finds that the current cost to make a 5/8-inch x 3/4- inch service connection to Peaks Mill District's water mains is \$3,500, and Peaks Mill District's current Meter Connection/Tap Charge for such connection, which is \$1,160, should be adjusted to \$3,500 to reflect the current cost of providing such service. The Commission agrees with Commission Staff's analysis of Peaks Mill District's request and the current tariff.

WATER LOSS SURCHARGE

In the Commission Staff's Report, Staff recommended the Commission approve Peaks Mill District's Water Loss Reduction Surcharge at the recalculated amount of \$3.09 per customer per month for 48 months to help lower system losses to more acceptable levels. The surcharge would produce approximately \$44,941 annually, and \$179,764 in total collections over the 48-month period.¹⁰¹

The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3). The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss. In establishing water-loss surcharges, the Commission recognized that the adjustments required to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water utility's ability to take the necessary action to focus on its leak detection and repair. Using

¹⁰⁰ Peaks Mill District's current tariff, Original Sheet No. 10, Connection Fee.

¹⁰¹ Staff's Report at 6.

a surcharge to fund a water utility's water loss reduction efforts allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge and public confidence in the water utility's use of those funds. In its report titled *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report* by the Kentucky Public Service Commission November 2019 that was fully incorporated in the final Order in Case No. 2019-00041, Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.¹⁰²

In Commission Staff's Report, the water loss surcharge was calculated with a disallowed water loss of \$44,977.

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Peaks Mill District to recover the cost for its water leak detection efforts and repairs in order to reduce the increased expense and lost revenue from unaccounted-for water loss. Utilizing the \$44,977 disallowed water loss, the Commission finds that a monthly water loss reduction surcharge of \$3.09 per customer over 48 months, or until \$179,764 has been assessed, whichever occurs first, should be approved subject to the following conditions:

¹⁰² Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

1. Within 120 days of the date of service of this Order, Peaks Mill District should file into the record of Case No. 2024-00256,¹⁰³ a Qualified Infrastructure Improvement Plan (QIIP), including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

2. Peaks Mill District shall deposit surcharge collections in a separate interest-bearing account.

3. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Peaks Mill District should file into the record of Case No. 2024-00256, a monthly activity report that includes a statement of monthly surcharge billings and collections using the format in the Surcharge Reporting form located on the Commission's website, a monthly surcharge bank statement, and a list of all payments made for the month from the surcharge account that includes the following for each payment: the payee, a description of the purpose, and the supporting invoice.

4. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Peaks Mill District should file a monthly water loss report, using the format in the Water Use & Loss Calculations form located on the Commission's website, into the record of Case No. 2024-00256.

¹⁰³ Case No. 2024-00256, *Electronic Peaks Mill Water District Unaccounted for Water Loss Reduction Plan, Surcharge and Monitoring*.

5. Peaks Mill District should not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses or for any other reason without prior Commission authorization.

6. Peaks Mill District should file all requests to use surcharge proceeds in the record of Case No. 2024-00256. A request shall include a complete description of the equipment, project, or service for which approval is sought; bids, invoices, or price quotes as applicable; and a statement describing how the proposed purchase, project, or service is related to the QIIP and the goal of reducing unaccounted-for water loss.

7. Peaks Mill District should consider all surcharge collections as contributions and should account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

8. Peaks Mill District should debit monthly billings for the surcharge to customers' accounts received and credit the contribution account.

9. When Peaks Mill District collects the surcharge from the customers, it should debit special funds and credit the customer account.

10. No later than April 30 of each year, Peaks Mill District should file in Case No. 2024-00256, a report of surcharge activity and water loss improvement progress based on the preceding year ended December 31 with reported annual surcharge billings and expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and Peaks Mill District's audited financial statements. Cumulative surcharge billings and expenditures shall also be reported. A schedule of the estimated and actual progress of the program, actual expenditures made with surcharge proceeds, and encumbered amounts of future

surcharge proceeds for the purpose of evaluating whether adjustments to the program or to the surcharge amount shall be provided.

11. Peaks Mill District should respond to any requests for information propounded by Commission Staff, by the date set forth in the request, as a result of the required filings regarding the surcharge as provided in those requests.

12. Peaks Mill District's failure to comply with any conditions attached to its assessment of the surcharge should result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of the expenses and projects approved by the Commission.

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, are supported by the evidence of record and are reasonable. By applying the DSC method to Peaks Mill District's pro forma operations results in an Overall Revenue Requirement of \$976,236 and that a \$203,877 revenue increase, or 28.28 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement. The Commission further finds that the \$3.09 per customer per month surcharge are supported by the evidence of record and are reasonable.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Peaks Mill District are denied.

3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Peaks Mill District on or after the date of service of this Order.

4. Within 20 days of the date of service of this Order, Peaks Mill District 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. The Commission shall open a separate proceeding, Case No. 2024-00256, to monitor the surcharge proceeds collection and expenses subject to the following conditions:

a. Within 120 days of the date of service of this Order, Peaks Mill District shall file into the record of Case No. 2024-00256 a QIIP, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Peaks Mill District shall deposit and maintain surcharge collections in a separate interest-bearing account.

c. On the 15th day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, Peaks Mill District shall file into the record of Case No. 2024-00256 a monthly activity report that includes a statement of monthly surcharge billings and collections using the format in the Surcharge Reporting form located on the Commission's website, a monthly surcharge bank statement, and a list of all payments made for the month from the surcharge account that includes the

following for each payment: the payee, a description of the purpose, and the supporting invoice.

d. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Peaks Mill District shall file into the record of Case No. 2024-00256 a monthly water loss report, using the format in the Water Use & Loss Calculations form located on the Commission's website, with the Commission.

e. Peaks Mill District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses or for any other reason without prior Commission authorization.

f. Peaks Mill District shall file all requests to use surcharge proceeds in the record of Case No. 2024-00256. A request shall include a complete description of the equipment, project, or service for which approval is sought; bids, invoices, or price quotes as applicable; and a statement describing how the proposed purchase, project, or service is related to the qualified infrastructure improvement plan and the goal of reducing unaccounted-for water loss.

g. Peaks Mill District shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

h. Peaks Mill District shall debit monthly billings for the surcharge to customers' accounts received and credit the contribution account.

i. When Peaks Mill District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

j. No later than April 30 of each year, Peaks Mill District shall file in Case No. 2024-00256, a report of surcharge activity and water loss improvement progress based on the preceding year ended December 31 with reported annual surcharge billings and expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and Peaks Mill District's audited financial statements. Cumulative surcharge billings and expenditures shall also be reported. A schedule of the estimated and actual progress of the program, actual expenditures made with surcharge proceeds, and encumbered amounts of future surcharge proceeds for the purpose of evaluating whether adjustments to the program or to the surcharge amount shall be provided.

k. Peaks Mill District shall respond to any requests for information propounded by Commission Staff, by the date set forth in the request, as a result of the required filings regarding the surcharge as provided in those requests.

l. Peaks Mill District's failure to comply with any conditions attached to its assessment of the surcharge shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

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

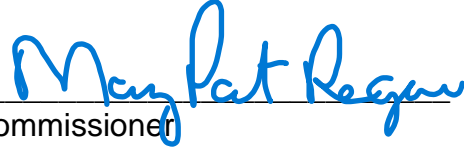
PUBLIC SERVICE COMMISSION

Chairman



Vice Chairman

Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00401 DATED SEP 04 2024

	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Transfer Fee	62	\$25.00	\$42.00	\$1,054	\$2,604
Reconnection Fee	56	\$50.00	\$42.00	-\$448	\$2,352
Service Line Inspection	0	\$50.00	\$59.00	\$0	\$0
Service Call/Investigation	0	\$65.00	\$59.00	\$0	\$0
Returned Check Fee	24	\$25.00	\$12.00	-\$312	\$288
Meter Test Fee	0	\$75.00	\$159.00	\$0	\$0
Meter Re-read Charge	0	\$25.00	\$42.00	\$0	\$0
Meter/Service Relocation	0	Actual Cost	Actual Cost	\$0	\$0
Pro Forma Test Year NRC Revenue					\$5,244
Less: Test Year NRC Revenue					\$4,950
Adjustment					<u>\$294</u>

* Denotes Rounding

Nonrecurring Charges Adjustments

Transfer Fee			
	Utility Revised Charge		Staff Revised Charge
Field Materials			
Field Labor	\$ 35.00	\$	35.00
Office Supplies	\$ -	\$	-
Office Labor	\$ 12.13	\$	-
Transportation	\$ 6.70	\$	6.70
Misc.	\$ -	\$	-
Total Revised Charge*	<u>\$ 53.83</u>	<u>\$</u>	<u>42.00</u>
Current Rate	\$25.00		

Reconnection Fee			
	Utility Revised Charge		Staff Revised Charge
Field Materials			
Field Labor (1hr at \$18/hr)	\$ 35.00	\$	35.00
Office Supplies	\$ -	\$	-
Office Labor	\$ 12.13	\$	-
Transportation	\$ 6.70	\$	6.70
Misc. (Mileage Roundtrip)	\$ -	\$	-
Total Revised Charge*	<u>\$ 53.83</u>	<u>\$</u>	<u>42.00</u>
Current Rate	\$50.00		

Service Line Inspection			
	Utility Revised Charge		Staff Revised Charge
Field Materials	\$ -	\$	-
Field Labor (2hrs min at \$18/hr)	\$ 52.50	\$	52.50
Office Supplies	\$ -	\$	-
Office Labor	\$ 12.13	\$	-
Transportation	\$ 6.70	\$	6.70
Misc. (Mileage)	\$ -	\$	-
Total Revised Charge	<u>\$ 71.33</u>	<u>\$</u>	<u>59.00</u>
Current Rate	\$50.00		

Service Call/Investigation			
	Utility Revised Charge		Staff Revised Charge
Field Materials	\$ -	\$	-
Field Labor	\$ 52.50	\$	52.50
Office Supplies	\$ -	\$	-
Office Labor	\$ 12.13	\$	-
Transportation	\$ 6.70	\$	6.70
Misc. (Bank service charge)	\$ -	\$	-
Total Revised Charge	<u>\$ 71.33</u>	<u>\$</u>	<u>\$59.00</u>
Current Rate	\$ 65.00		

Returned Check Fee		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor (30 min at \$18/hr)	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ 12.13	\$ -
Transportation	\$ -	\$ -
Misc. (Bank Charge)	\$ 12.00	\$ 12.00
Total Revised Charge	\$ 24.13	\$12.00
Current Rate	\$ 25.00	

Meter Test Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	
Field Labor (1hr at \$18/hr)	\$ 85.00	\$ 85.00
Office Supplies	\$ -	\$ -
Office Labor	\$ 12.13	\$ -
Transportation	\$ 6.70	\$ 6.70
Misc. (Mileage)	\$ 120.90	\$ 67.00
Total Revised Charge*	\$ 224.73	\$ 159.00
Current Rate	\$75.00	

Meter Re-read Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	
Field Labor (2hr min at \$18/hr)	\$ 35.00	\$ 35.00
Office Supplies	\$ -	\$ -
Office Labor	\$ 12.13	\$ -
Transportation	\$ 6.70	\$ 6.70
Misc. (Mileage)	\$ -	\$ -
Total Revised Charge*	\$ 53.83	\$ 42.00
Current Rate	\$52.00	

Meter/Service Relocation Fee		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor (30min at \$18/hr)	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc. (Mileage)	\$ -	\$ -
Total Revised Charge*	Actual Cost	Actual Cost
Current Rate	Actual Cost	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00401 DATED SEP 04 2024

The following rates and charges are recommended by Commission Staff for the customers in the area served by Peaks Mill Water District. All other rates and charges not specifically mentioned herein are proposed to remain the same.

Monthly Retail Rates

5/8-Inch x 3/4-Inch Meter

First	2,000 Gallons	\$	35.78	Minimum Bill
Next	8,000 Gallons		0.01272	Per Gallon
Next	90,000 Gallons		0.01081	Per Gallon
Over	100,000 Gallons		0.00892	Per Gallon

1-Inch Meter

First	2,000 Gallons	\$	35.78	Minimum Bill
Next	8,000 Gallons		0.01272	Per Gallon
Next	90,000 Gallons		0.01081	Per Gallon
Over	100,000 Gallons		0.00892	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$	141.74	Minimum Bill
Next	90,000 Gallons		0.01081	Per Gallon
Over	100,000 Gallons		0.00892	Per Gallon

2-Inch Meter

First	15,000 Gallons	\$	201.58	Minimum Bill
Next	85,000 Gallons		0.01081	Per Gallon
Over	100,000 Gallons		0.00892	Per Gallon

3-Inch Meter

First	20,000 Gallons	\$	298.21	Minimum Bill
Next	80,000 Gallons		0.01081	Per Gallon
Over	100,000 Gallons		0.00892	Per Gallon

4-Inch Meter

First	30,000 Gallons	\$	422.08	Minimum Bill
Next	70,000 Gallons		0.01081	Per Gallon
Over	100,000 Gallons		0.00892	Per Gallon

Water Loss Reduction Surcharge

\$3.09 Per Customer Per Month

Tap-On Fee

5/8-Inch x 3/4-Inch Meter
All Larger Meters

\$ 3,500.00
Actual Cost

Nonrecurring Charges

Transfer Fee	\$	42.00
Reconnection Fee		42.00
Service Line Inspection		59.00
Service Call/Investigation		59.00
Meter Test Fee		159.00
Meter Re-Read Charge		42.00
Meter/Service Relocation		Actual Cost
Returned Check Fee		12.00

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