

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JUDY WATER )	CASE NO.
ASSOCIATION, INC. FOR A RATE ADJUSTMENT )	2022-00436
PURSUANT TO 807 KAR 5:076 )	

ORDER

On January 11, 2023,<sup>1</sup> Judy Water Association (Judy Water) filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. Judy Water filed this proceeding in compliance with the final Order in Case No. 2022-00208.<sup>2</sup> In that proceeding, Judy Water was ordered to file an application by February 12, 2024, for either a traditional adjustment in rates or for an alternative rate adjustment (ARF) to ensure its revenue is sufficient to support adequate and reliable service.

In its application, Judy Water requested rates that would increase its annual water sale revenues by \$201,253, or a 16.53 percent increase to pro forma present rate water sale revenues.<sup>3</sup>

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<sup>1</sup> Judy Water tendered its application on January 5, 2023. By letter dated January 9, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on January 11, 2023. As discussed in this Order, Judy Water subsequently amended its application pursuant to 807 KAR 5:076, Section 11(3)(f) when it accepted Commission Staff's proposed rates that exceeded 110% of the total increase in revenues that Judy Water's proposed rates would product.

<sup>2</sup> Case No. 2022-00208, *Electronic Purchased Water Adjustment Filing of Judy Water Association, Inc.* (Ky. PSC Aug. 12, 2022) at 6, ordering paragraph 5.

<sup>3</sup> Application, Attachment 1, 01\_Customer\_Notice.pdf, Customer Notice.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 31, 2023, which, among other things, required the Commission Staff to file a report containing its recommendations regarding Judy Water's application. Judy Water responded to two requests for information from Commission Staff.<sup>4</sup>

Commission Staff's Report was filed on April, 26, 2023, summarizing its findings and recommendations regarding Judy Water's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that Judy Water's adjusted test-year operations support an overall revenue requirement of \$1,553,363, and that an annual revenue increase of \$247,351, or 20.31 percent, is necessary to generate the overall revenue requirement. In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

On May 10, 2023, Judy Water filed its response to Commission Staff's Report.<sup>5</sup> In its written comments, Judy Water reserved the right to contest in future ARF proceedings certain recommendations made by Commission Staff, but accepted Commission Staff's recommended revenue requirement and proposed rates. Judy Water reserved the right to challenge in future proceedings Commission Staff's recommendation to remove certain labor expenses from Nonrecurring Charges.<sup>6</sup> Judy Water stated that the manager is required by the association's by-laws to attend the monthly board

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<sup>4</sup> Judy Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Mar. 2, 2023); Judy Water's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Mar. 24, 2023).

<sup>5</sup> Judy Water's Response to Commission Staff's Report (filed May. 10, 2023).

<sup>6</sup> Judy Water's Response to Commission Staff's Report (filed May. 10, 2023), Item 1.

meetings and is compensated for the attendance. However, the manager position serves as a non-voting ex-officio member, therefore this does not create a conflict of interest.<sup>7</sup> Judy Water concurred with the remaining findings presented in the Commission Staff's Report.<sup>8</sup> With its response, Judy Water waived its right to request an informal conference or hearing in this case.<sup>9</sup>

Consistent with 807 KAR 5:076, Section 11(3)(f), Judy Water amended its application when it accepted Commission Staff's proposed rates that exceeded 110 percent of the total increase in revenues that Judy Water's proposed rates would product. By Order entered May 26, 2023, the Commission accepted Judy Water's amended application and required Judy Water to notify its customers of the implementation of rates calculated by Commission Staff. On June 23, 2023, Judy Water filed an affidavit with proof of public notice to its customers. The case now stands submitted for a decision by the Commission.

#### LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case

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<sup>7</sup> Judy Water's Response to Commission Staff's Report (filed May. 10, 2023), Item 2.

<sup>8</sup> Judy Water's Response to Commission Staff's Report (filed May. 10, 2023), Item 3.

<sup>9</sup> Judy Water's Response to Commission Staff's Report (filed May. 10, 2023), Item 4.

law, Judy Water is allowed to charge its customers “only fair, just and reasonable rates.”<sup>10</sup> Further, Judy Water bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

### BACKGROUND

Judy Water is a water association organized pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it provides water service to approximately 2,031 residential customers and nine commercial customers in Bath, Bourbon, Clark, Montgomery, and Nicholas counties, Kentucky.<sup>11</sup> Judy Water does not produce any of its own water; rather, it purchases its water from Mt. Sterling Water and Sewer and Kentucky American Water.<sup>12</sup> A review of the Commission’s records indicates this is Judy Water’s first alternative rate adjustment since 2003.<sup>13</sup>

### UNACCOUNTED-FOR WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. As noted in the Commission Staff’s Report, Judy Water’s test-year water loss was 17.5225 percent.<sup>14</sup> Accordingly, Staff reduced test-year expenses by \$14,420 to account for the 2.5225 percent excess water loss<sup>15</sup> and the total cost of water loss to Judy Water is \$100,168 as calculated below.

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<sup>10</sup> *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm’n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

<sup>11</sup> *Annual Report of Judy Water Association to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

<sup>12</sup> 2021 Annual Report at 54.

<sup>13</sup> Case No. 2003-00249, *Application for an Adjustment of Rates of Judy Water Association, Inc.* (Ky. PSC Sept. 9, 2003).

<sup>14</sup> Commission Staff’s Report at 2–3.

<sup>15</sup> Commission Staff’s Report at 2–3.

	<u>Purchased Water</u>	<u>Treatment Plant Purchased Power</u>	<u>Total</u>
Test Year Water Purchase and Pumping Costs	\$ 568,098	\$ 3,554	\$ 571,652
Multiplied by: Water Loss in excess of 15 Percent	<u>2.5225%</u>	<u>2.5225%</u>	<u>2.5225%</u>
Cost of Line loss in Excess of the 15% Limit	<u>\$ 14,330</u>	<u>\$ 90</u>	<u>\$ 14,420</u>
Test Year Water Purchase and Pumping Costs	\$ 568,098	\$ 3,554	\$ 571,652
Multiplied by: Test Year Water Loss	<u>17.5225 %</u>	<u>17.5225 %</u>	<u>17.5225 %</u>
Total Cost of Line Loss	<u>\$ 99,545</u>	<u>\$ 623</u>	<u>\$ 100,168</u>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Judy Water to pursue reasonable actions to reduce its water loss. Failure by Judy Water to make significant progress toward reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

#### TEST PERIOD

The calendar year ended December 31, 2021, was used as the test year to determine the reasonableness of Judy Water's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

#### SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Judy Water's pro forma income statement as follows:

	<u>2020 Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Commission Staff's Report Pro Forma</u>
Total Operating Revenues	\$1,356,689	\$ 4,489	\$1,361,178
Utility Operating Expenses	<u>1,427,403</u>	<u>(60,444)</u>	<u>1,366,959</u>
Net Utility Operating Income	(70,714)	64,933	(5,781)
Gains (Losses) from Disposition of Utility Property	6,000	(6,000)	-
Interest and Dividend Income	<u>3,005</u>	<u>-</u>	<u>3,005</u>
Net Income Before Contributions	<u>\$ (61,709)</u>	<u>\$58,933</u>	<u>\$ (2,776)</u>

REVIEW OF COMMISSION  
STAFF'S RECOMMENDATIONS

Judy Water proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff recommended additional adjustments. The Commission accepts the findings and recommendations contained in the Commission Staff's Report.

<u>Operating Revenues</u>	Test Year	Judy Water Proposed Adjustments	Commission Staff's Proposed Adjustment	Pro Forma
Sales of Water				
Metered Water Sales	\$ 1,334,276	\$ (7,053) (109,480)	\$ 4,489 (109,480) (11,542)	\$ 1,217,743
Other Water Revenues				
Forfeited Discounts	413		11,542	11,955
Other Water Revenues	22,000	109,480	109,480	131,480
<b>Total Operating Revenues</b>	<b>1,356,689</b>	<b>(7,053)</b>	<b>4,489</b>	<b>1,361,178</b>
<u>Operating Expenses</u>				
Operating and Maintenance Expenses				
Salaries and Wages- Employees	182,987	43,265 (9,915)	37,173 87,050 (9,915)	297,295
Salaries and Wages- Officers	87,050	22,200 824	(87,050) 24,723	24,723
Employee Pensions and Benefits	34,582	(724)	6,348	40,930
Insurance- Health, Gen. Liab & Worker Comp.	71,584	(6,199)	(9,954)	61,630
Purchased Water	568,098	(14,330)	14,330	
Purchased Power		28,883 3,554	9,619 15,095	592,047
Materials and Supplies	43,776	(90)	90	15,185
Contractual Services	14,315	(23,135)	(23,135)	20,641
Miscellaneous Expenses	141,573	(22,200) (3,554)	(22,200) (15,095)	14,315 104,278
<b>Total Operation and Maintenance Expenses</b>	<b>1,143,965</b>	<b>18,579</b>	<b>27,079</b>	<b>1,171,044</b>
Depreciation Expenses	262,481	(85,033)	(94,162) 2,203	170,522
Taxes other than Income	20,957	3,011	4,436	25,393
<b>Total Operating Expenses</b>	<b>1,427,403</b>		<b>(60,444)</b>	<b>1,366,959</b>
Utility Operating Income	(70,714)	(7,053)	64,933	(5,781)
<u>Other Revenues and Deductions</u>				
Gains (Losses) from Disposition of Utility Property	6,000		(6,000)	-
Interest and Dividend Income	3,005			3,005
<b>Total Other Revenues and Deductions</b>	<b>9,005</b>		<b>(6,000)</b>	<b>3,005</b>
<b>Net Income Before Contributions</b>	<b>\$ (61,709)</b>	<b>\$ (7,053)</b>	<b>\$ 58,933</b>	<b>\$ (2,776)</b>

## REVENUE REQUIREMENTS

Billing Analysis. Judy Water provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year ended December 31, 2021. Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$1,217,743 for all retail customers is an accurate representation of the normalized test-year revenue from water sales. In the Commission Staff's Report, Commission Staff recommended an increase to Judy Water's test-year Water Sales Revenue of \$4,489,<sup>16</sup> which is the difference between the Normalized test year revenue and the reported test year revenue after subtracting misclassified late fee revenue and surcharge revenue.<sup>17</sup> The Commission finds that this adjustment is reasonable because after subtracting the misclassified revenue from reported water sales revenue in the test year, the amount for normalized revenue from rates was \$4,489 higher than the adjusted test year revenue. Therefore, the adjustment should be accepted.

Surcharge Revenues. In the Commission's Staff Report, Commission Staff agreed with Judy Water's proposal to reclassify surcharge revenues of \$109,480 that were incorrectly included in metered sales.<sup>18</sup> Judy Water provided information about the surcharge revenues, stating that a monthly surcharge of \$16.77<sup>19</sup> is added to the bills of customers being served on the Bourbon County Waterline Extension and that the test year total of \$109,480, charged specifically to recover the costs associated with the water

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<sup>16</sup> Commission Staff's Report at 9, Adjustment A.

<sup>17</sup> Commission Staff's Report at 9, Adjustment A.

<sup>18</sup> Commission Staff's Report at 10, Adjustment B.

<sup>19</sup> Case No. 2000-00161, *The Application of Judy Water Association of Montgomery County, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to the Provisions of KRS 278.023* (Ky. PSC June 8, 2000).

line extension construction, should properly be classified as Other Water Revenue. The Commission finds that this adjustment is reasonable because surcharge revenue is normally classified as Other Water Revenue and is not Water Sales revenue, therefore the adjustment should be accepted.

Forfeited Discounts. In the Commission's Staff Report, Commission Staff recommended a decrease in Metered Water Sales of \$11,542 and an increase in Other Water Revenue – Forfeited Discounts of \$11,542 to account for the misclassification of the test year Forfeited Discount revenue.<sup>20</sup> The Commission finds that this adjustment is reasonable because the Forfeited Discount revenue was misclassified as Metered Water Sales, therefore the adjustment should be accepted.

Salaries and Wages – Employees. In the Commission Staff's Report, Commission Staff recommended an increase to Judy Water's Salaries and Wages – Employees of \$37,173<sup>21</sup> to reflect the normalization of employee wages, part time hours worked, and changes in staffing levels. The Commission finds that this adjustment is reasonable because Judy Water provided sufficient evidence that its employee salaries increased during and subsequent to the test year and the calculations are based upon test year hours worked and the current wage rates, and should be accepted.

Reclassify Salaries and Wages – Officers. In the Commission Staff's Report, Commission Staff recommended a decrease to Salaries and Wages – Officers and an increase to Salaries and Wages – Employees of \$87,050 to account for the reclassification of the Operations Director's salaries from Salaries and Wages –

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<sup>20</sup> Commission Staff's Report at 10, Adjustment C.

<sup>21</sup> Commission Staff's Report at 10–12, Adjustment D.



Employees to Salaries and Wages – Officers.<sup>22</sup> The Commission finds that this adjustment is reasonable because the Operations Director salary was misclassified as Salaries and Wages – Officers and the adjustment was needed to correct the misclassification; and should be accepted.

Expenses Related to Meter Installation. In the Commission Staff's Report, Commission Staff recommended the Commission accept Judy Water's proposed adjustment to decrease test-year Salaries and Wages – Employees by \$9,915, and Materials and Supplies by \$23,135<sup>23</sup> to reflect the capitalization of costs incurred in installation of 28 new water connections. The Commission finds that this adjustment is a is reasonable since the Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as utility Plant is Service and depreciated over their estimated useful lives; and should be accepted.

Salaries and Wages – Officers. In the Commission Staff's Report, Commission Staff recommended an increase to Judy Water's Salaries and Wages – Officers of \$24,723 and a decrease to Miscellaneous Expense of \$22,200;<sup>24</sup> to reflect the reclassification and normalization of the test-year commissioner's salaries. The Commission finds that this adjustment is reasonable since the Salaries and Wages – Officers was misclassified as Miscellaneous Expense and an adjustment is needed to reclassify them to Salaries and Wages - Officers, then the salaries are annualized at current salary rates; and should be accepted.

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<sup>22</sup> Commission Staff's Report at 12, Adjustment E.

<sup>23</sup> Commission Staff's Report at 12–13, Adjustment F.

<sup>24</sup> Commission Staff's Report at 13–14, Adjustment G.

Employee Pensions and Benefits – Pension. In the Commission Staff’s Report, Commission Staff recommended an increase to Judy Water’s Employee Pensions and Benefits of \$6,348<sup>25</sup> to reflect the increase in pensions due to an increase in salaries. The Commission finds that this adjustment is reasonable, since it is a result of the adjustment to Salaries and Wages – Employees and the current contribution rate of 16 percent; and should be accepted.

Employee Pensions and Benefits – Insurance. In Commission Staff’s Report, Commission Staff recommended a decrease to Judy Water’s Employee Pensions and Benefits of \$9,954<sup>26</sup> to reflect the adjustment of single insurance premiums paid by Judy Water from 100 percent to 78 percent and Family insurance premiums paid from 100 percent to 66 percent to be consistent Commission precedent regarding premiums paid for health benefits. The Commission finds that this adjustment is reasonable since it is consistent with past commission precedent regarding premiums paid for health insurance; and should be accepted.

Purchased Water Expense. In Commission Staff’s Report, Commission Staff recommended an increase to Judy Water’s Purchased Water Expense of \$9,619<sup>27</sup> to reflect the normalization of Purchased Water Expense}. The Commission finds that this adjustment is reasonable because Judy Water provided sufficient evidence that its water provider rates were increased during and subsequent to the test year and the calculations are based upon test year usage and the increased rates, and should be accepted.

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<sup>25</sup> Commission Staff’s Report at 14–15, Adjustment H.

<sup>26</sup> Commission Staff’s Report at 16–17, Adjustment I.

<sup>27</sup> Commission Staff’s Report at 17–18, Adjustment J.

Purchased Power Reclassification. In Commission Staff's Report, Commission Staff recommended an increase to Judy Water's Purchased Power Expense and a subsequent decrease to Miscellaneous Expense of \$15,095<sup>28</sup> to reflect the reclassification of purchased power expenses. The Commission finds that this adjustment is reasonable because, purchased power expenses need to be correctly recorded in the correct expense category instead of combined into Miscellaneous Expense.

Excess Water Loss. Judy Water's test-year water loss was 17.5225 percent. Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes, unless the Commission finds an alternative level is reasonable. In the Commission Staff's Report, Commission Staff recommended a decrease to Judy Water's Purchased Water Expense by \$14,330 and Purchased Power Expense by \$90<sup>29</sup> to reflect the costs associated with the production of water in excess of 15 percent water loss. The Commission finds that this adjustment is reasonable since Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes.

Depreciation. In the Commission Staff's Report, Commission Staff recommended a decrease to Judy Water's Depreciation Expense of \$94,162<sup>30</sup> to reflect the adjustment of the useful life of capital assets to the midpoint of the National Association of Regulatory Utility Commissioners' (NARUC) depreciation study titled *Depreciation Practices for Small*

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<sup>28</sup> Commission Staff's Report at 18, Adjustment K.

<sup>29</sup> Commission Staff's Report at 18–19, Adjustment L.

<sup>30</sup> Commission Staff's Report at 19–20, Adjustment M.

*Water Utilities* (NARUC Study). The Commission finds that this adjustment is reasonable, in order to align Judy Water's capital assets' useful lives with the NARUC recommended useful lives; and should be accepted.

Capitalization of Test Year Water Connections. In the Commission Staff's Report, Commission Staff recommended an increase to Judy Water's Depreciation Expense of \$2,203 to reflect the capitalization of the materials and supplies associated with the installation of new water connections.<sup>31</sup> The Commission finds that this adjustment is reasonable, since as stated above, the USoA require the assets to be depreciated over their estimated useful lives; and should be accepted.

Taxes Other than Income – FICA. In Commission Staff's Report, Commission Staff recommended an increase to Judy Water's Taxes Other than Income Expense by \$4,436<sup>32</sup> to account for the increased contribution amount of pro forma wage adjustments multiplied by the FICA percentage rate of 7.65 percent. The Commission finds that this adjustment is reasonable since it is a result of changes to Salaries and Wages – Employees; and should be accepted.

Gains (Losses) from the Disposition of Utility Property. In Commission Staff's Report, Commission Staff recommended a decrease to Judy Water's Gains (Losses) from the Disposition of Utility Property by \$6,000<sup>33</sup> to account for the removal of extraordinary transactions. The Commission finds that this adjustment is reasonable, since non-routine

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<sup>31</sup> Commission Staff's Report at 20, Adjustment N.

<sup>32</sup> Commission Staff's Report at 20–21, Adjustment O.

<sup>33</sup> Commission Staff's Report at 21, Adjustment P.

transactions should be removed from the Revenue Requirement calculation; and should be accepted.

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

	Commission Staff Report Pro Forma	Commission Adjustments	Final Pro Forma
Total Operating Revenues	\$ 1,361,178	-	\$ 1,361,178
Utility Operating Expenses	1,366,959	-	1,366,959
Net Utility Operating Income	(5,781)	-	(5,781)
Gains from Disposition of Utility Property	-	-	-
Interest and Dividend Income	3,005	-	3,005
Total Utility Operating Income	<u>\$ (2,776)</u>	<u>-</u>	<u>\$ (2,776)</u>

#### OVERALL REVENUE REQUIREMENT

The operating ratio (OR) methodology<sup>34</sup> 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. Since Judy Water only has two outstanding debts, the Commission is of the opinion that an operating ratio of 88 percent will allow Judy Water sufficient revenues to cover its reasonable operating expenses and provide for reasonable equity growth.

Based upon the Commission’s findings and determinations herein, Judy Water requires an increase in revenues from water sales of \$247,351, or 20.31 percent above

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<sup>34</sup> Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

pro forma present water rate revenues as shown below. This increase is required for Judy Water to remain operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 1,366,959
Divided by: Operating Ratio	<u>88 %</u>
Overall Revenue Requirement	1,553,363
Plus: Average Interest Expense	58,171
Less: Other Operating Revenue	(143,435)
Interest Income	<u>(3005)</u>
Revenue Required from Sales of Water	1,465,094
Less: Revenue from Sales with Present Rates	<u>(1,217,743)</u>
Required Revenue Increase	<u>\$ 247,351</u>
Percentage Increase	<u>20.31%</u>

#### RATE DESIGN

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. In the Commission Staff Report, Commission Staff followed the method previously accepted by Judy Water and allocated Commission Staff's calculated revenue increase across the board to Judy Water's monthly retail water service rates.

The rates set forth in the Appendix to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from water sales to recover the \$1,465,094 Revenue Required from Water Sales, an approximate 20.31 percent over normalized test-year water sales of \$1,217,743. The monthly bill of a typical residential customer using 4,000 gallons of water

will increase from \$31.79 to \$38.14, an increase of \$6.35, or approximately 19.97 percent.<sup>35</sup>

### RATE CASE FREQUENCY

In Case No. 2019-00041 and the resulting investigative report, the Commission discussed the problems that can occur when utilities avoid a review of their financial records.<sup>36</sup> A key recommendation from that investigative report was that water utilities should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.<sup>37</sup> In light of its findings in Case No. 2019-00041, the Commission noted, in Case No. 2022-00208,<sup>38</sup> that Judy Water had not sought a base rate adjustment since 2003.<sup>39</sup> Because it had been 20 years since the Commission last reviewed Judy Water's rate sufficiency and financial records, and Judy Water had reported multiple years of negative net income, was not properly funding its depreciation reserves, and had increasing water losses;<sup>40</sup> in Case No. 2022-00208 the Commission ordered Judy Water to file an application for general or an alternative rate adjustment on or before February 12, 2024.<sup>41</sup>

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<sup>35</sup>  $\$38.14$  (Average Bill New Water Rates) -  $\$31.79$  (Average Bill Current Water Rates) =  $\$6.35$  (Total Difference in Customer Bill)  $\div$   $\$31.79$  (Average Bill Current Water Rates) = 19.97%.

<sup>36</sup> Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019), Order.

<sup>37</sup> Case No. 2019-00041, Nov. 22, 2019 Order.

<sup>38</sup> Case No. 2022-00208, Aug. 12, 2022 Order.

<sup>39</sup> Case No. 2003-00249, *Application for an Adjustment of Rates of Judy Water Association, Inc.* (Ky. PSC Sept. 9, 2003).

<sup>40</sup> Case 2022-00208, Aug 12, 2022 Order at 4.

<sup>41</sup> Case No. 2022-00208, Aug. 12, 2022 Order at 6, ordering paragraph 5.

In addition to the requirement to file a rate case on or before February 12, 2024, the Commission recommends that Judy Water conduct internal financial reviews on an annual basis to ensure that its water rates are sufficient. Financial stability is fundamental and critical to a utility being able to provide adequate service. The Commission also recommends that Judy Water's board of commissioners consider filing periodic rate cases with the Commission every three to five years and implement a written policy to that effect to maintain a regular review of the utility's finances. These are good practices to ensure that there is not a 20-year gap between base rate cases in the future.

#### 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. The Commission has historically used an OR method to calculate the revenue requirement for water districts or associations without outstanding long-term debt. Therefore, applying the OR method to Judy Water's pro forma operations results in an Overall Revenue Requirement of \$1,553,363, a required revenue from water sales of \$1,465,094, and an increase in revenue from water sales of \$247,351, or 20.31 percent.

The Commission finds that allocating the calculated revenue increase across the board to Judy Water's monthly water service rates to be fair, just and 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 Judy Water are denied.



3. The rates set forth in the Appendix to this Order are approved for services rendered by Judy Water on and after the date of this Order.

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

5. Judy Water shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

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

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner



ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2022-00436 DATED AUG 04 2023

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

Monthly Water Rates

First	1,000 Gallons	\$ 16.22	Minimum Bill
Next	4,000 Gallons	\$ .01096	Per Gallon
Next	5,000 Gallons	\$ .00990	Per Gallon
Over	10,000 Gallons	\$ .00882	Per Gallon

Nonrecurring Charges

Late Payment Penalty	10%
Meter Relocation Charge	Actual
Meter Test Charge	35.00
Returned Check Charge	16.00
5/8 x 3/4 Inch Tap-On Charge	\$1,175.00
All Meters larger than 5/8 x 3/4	Actual Cost

\*Judy Water Association, Inc.  
2010 Maysville Road  
P. O. Box 781  
Mt. Sterling, KY 40353-0781

\*Billy Ray Fawns  
Judy Water Association, Inc.  
P. O. Box 781  
Mt. Sterling, KY 40353-0781

\*Sara Collier  
Judy Water Association, Inc.  
P. O. Box 781  
Mt. Sterling, KY 40353-0781

\*Sam Reid  
Judy Water Association, Inc.  
P. O. Box 781  
Mt. Sterling, KY 40353-0781