

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On January 30, 2024,¹ Lyon County Water District filed (Lyon District) its application with the Commission requesting an adjustment to its water and sewer service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,² Lyon District used the calendar year ended December 31, 2022, as the basis for its application. Lyon District's last base rate increase, also sought through the alternative rate filing procedure, was in Case No. 2021-00391.³ Since that matter, Lyon District has not adjusted its rates.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order⁴ dated February 14, 2024. Commission Staff's First Request for Information⁵ (Staff's First Request) was issued as an Appendix to the

¹ Lyon District tendered its application on December 13, 2023. By letters dated December 14, 2023, and January 2, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on January 30, 2024.

² The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

³ Case No. 2021-00391, *Electronic Application of Lyon County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 13, 2022).

⁴ Order (Ky. PSC Feb. 14, 2024).

⁵ Order (Ky. PSC Feb. 14, 2024), Appendix B, Commission Staff's First Request for Information.

procedural schedule issued on February 14, 2024, with a response due date of March 21, 2024. Commission Staff's Second Request⁶ for Information (Staff's Second Request) was issued on April 4, 2024, with a response due date of April 18, 2024. Lyon District responded to both requests in a timely manner, excepting one response each time.⁷

Commission Staff issued its report (Commission Staff's Report) on May 24, 2024, summarizing its recommendations regarding Lyon District's requested rate adjustments. Commission Staff recommended that the adjusted test year operations for Lyon District's water service supports an overall revenue requirement of \$1,649,591, and that a \$196,993 revenue increase, or 13.76 percent, to pro forma present rate revenues was necessary to generate the overall revenue requirement.⁸ In addition, Commission Staff recommended that the adjusted test year operations for Lyon District's sewer service supports an overall revenue requirement of \$61,372, and that a \$37,031 revenue increase, or 152.13 percent, to pro forma present rate revenues was necessary to generate the overall revenue requirement.⁹

On June 6, 2024, Lyon District filed its response to Commission Staff's Report. In its written comments, Lyon District concurred with the findings presented in the Commission Staff's Report.¹⁰ Although Lyon District did not agree with the removal of

⁶ Commission Staff's Second Request (issued Apr. 4, 2024).

⁷ Lyon District's Response to Staff's First Request (filed Mar. 26, 2024), Item 14 and Lyon District's Response to Staff's Second Request (filed Apr. 29, 2024), Item 4; Corrected Response to Staff's Second Request (filed May 6, 2024).

⁸ Commission Staff's Report at 28.

⁹ Commission Staff's Report at 30.

¹⁰ Lyon District's Response to Staff Report (filed June 6, 2024).

certain labor expenses from nonrecurring charges,¹¹ Lyon District stated it did not wish to contest the adjustments in the case, and Lyon District waived its right to request an informal conference or hearing.¹² The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."¹³ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Lyon District is a water and sewer utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 2,847 residential customers and 58 commercial customers,¹⁴ as well as

¹¹ Lyon District's Response to Staff Report at paragraphs 1 and 2.

¹² Lyon District's Response to Staff Report at paragraph 3.

¹³ *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).

¹⁴ *Annual Report of Lyon District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Water Report), at 12, 49.

retail sewer service to approximately 98 residential customers and 8 commercial customers that reside in Lyon County, Kentucky.¹⁵

UNACCOUNTED-FOR WATER LOSS

In its 2022 Annual Report, Lyon District reported a water loss of 14.7491 percent.¹⁶ Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2022 total annual cost of water loss to Lyon District is \$68,894.

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

TEST PERIOD

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

¹⁵ *Annual Report of Lyon District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Sewer Report), at 9, 36.

¹⁶ 2022 Annual Water Report at 57.

SUMMARY OF REVENUE AND EXPENSES

WATER DIVISION

Description	2022 Test Year	Total Adjustments	Commission Staff Report Pro Forma
Total Operating Revenues	\$ 1,399,626	\$ 51,908	\$ 1,451,534
Total Operating Expenses	1,294,282	6,060	1,300,342
Net Operating Income	105,344	45,848	151,192
Interest Income	1,064	0	1,064
Total Utility Operating Income	<u>\$ 106,408</u>	<u>\$ 45,848</u>	<u>\$ 152,256</u>

SEWER DIVISION

Description	2022 Test Year	Total Adjustment	Commission Staff Report Pro Forma
Total Operating Revenues	\$ 23,463	\$ 878	\$ 24,341
Total Operating Expenses	48,832	5,175	54,007
Net Operating Income	(25,369)	(4,297)	(29,666)
Income Available to Service Debt	<u>\$ (25,369)</u>	<u>\$ (4,297)</u>	<u>\$ (29,666)</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Lyon 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. Upon review, the Commission notes that Commission Staff reduced Retirement – County Employee Retirement System (CERS) expense by \$12,230 in order to reflect the contribution rate change for the 2024 fiscal year.¹⁷ The Commission finds that this adjustment was incorrect. In order to arrive at the calculated \$34,182, a further \$4,040 reduction is required. The correction for the difference in

¹⁷ Commission Staff's Report at 19.

contribution rates results in a decrease to the Revenue Requirement of \$4,040. The following is the Commission complete pro forma:

WATER DIVISION

Description	2022 Test Year	Total Adjustments	Commission Staff Report Pro Forma	Commission Adjustments	Commission Approve Pro Forma
Operating Revenues					
Sales of Water	1,399,626	56,632			
		(25,080)	1,431,178		1,431,178
Other Water Revenues					
Forfeited Discounts	-	16,979	16,979	-	16,979
Miscellaneous Service Revenue	-	3,377	3,377	-	3,377
Total Operating Revenues	1,399,626	51,908	1,451,534	-	1,451,534
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	179,018	(5,595)			
		(6,105)	167,318	-	167,318
Salaries and Wages - Officers	18,000	(634)	17,366	-	17,366
Employee Benefits (Medical and Dental)	34,200	(2,020)			
		(14,771)			
		10,848			
		(8,868)	19,389	-	19,389
Retirement (CERS)		2,020			
		48,432			
		(12,230)	38,222	(4,040)	34,182
Benefits Allocations to Sewer ()		(2,028)	(2,028)	-	(2,028)
Purchased Water	431,242	18,493	449,735	-	449,735
Purchased Power for Pumping	-	17,370	17,370	-	17,370
Materials and Supplies	83,857	(17,370)	66,487	-	66,487
Contractual Services	115,634	54,756	170,390	-	170,390
Insurance - General Liability & Other	24,978	(1,029)	23,949	-	23,949
Insurance - Workers Comp	4,246	-	4,246	-	4,246
Miscellaneous Expense	86,586	-	86,586	-	86,586
Total Operation and Maintenance Expenses	977,761	81,269	1,059,030	(4,040)	1,054,990
Depreciation	314,285	(93,336)	220,949	-	220,949
Amortization	-	5,406	5,406	-	5,406
Taxes Other Than Income	2,236	14,771			
		(1,504)			
		(546)	14,957	-	14,957
Total Operating Expenses	1,294,282	6,060	1,300,342	(4,040)	1,296,302
Net Operating Income	105,344	45,848	151,192	4,040	155,232
Interest Income	1,064	-	1,064	-	1,064
Income Available to Service Debt	\$ 106,408	\$ 45,848	\$ 152,256	\$ 4,040	\$ 156,296

PRO FORMA OPERATING STATEMENT

Billing Analysis: Lyon District proposed an increase of \$56,632 to its test year water sales of \$1,399,626 to adjust for a purchase water adjustment rate increase which became effective during the test year.¹⁸ Additionally, it reclassified \$25,080 from Water Sales to Forfeited Discounts (\$16,979) and Miscellaneous Service Revenues (\$8,101).¹⁹ In the Commission Staff Report, Commission Staff agreed that the proposed adjustments were appropriate to normalize test year general water sales revenues of \$1,431,178 and recommended that the Commission approve the adjustments.²⁰

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

Other Water Revenues: As noted above, Lyon District proposed an adjustment from Water Sales to reclassify \$25,080.²¹ Lyon District stated that these revenues should be reported as Forfeited Discounts of \$16,979 and to Miscellaneous Service Revenues

¹⁸ Case No. 2021-00391, *Electronic Application of Lyon County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC May 13, 2022). Commission Staff notes Lyon District's reference is to Case No. 2021-00391, *Electronic Application of Lyon County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC May 13, 2022), final Order.

¹⁹ Response to Filing Deficiencies (filed Dec. 14, 2023), Exhibit A, Schedule of Adjusted Operations – Water Division, References A and B.

²⁰ Commission Staff's Report at 12–13.

²¹ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference B.

of \$8,101.²² Lyon District subsequently provided a corrected amount for Miscellaneous Service Revenues of \$8,801,²³ which was verified by Commission Staff.

Lyon District provided cost justification sheets for the Nonrecurring Charges,²⁴ and Tap Fees²⁵ which were reviewed by Commission Staff, along with the responses to the information requests, and the general ledger. Commission Staff removed field labor and clerical/office labor performed during normal office hours from the nonrecurring charges, which decreased the test year Miscellaneous Service Revenues from \$8,801,²⁶ and resulted in a pro forma amount of \$3,377. Commission Staff recommended that the Commission approve these adjustments.²⁷

The Commission finds that the adjustments and the Other Water Sales revenue are known and measurable and the adjustments to pro forma Operating Revenues are reasonable.

Allocation of Shared Expenses: In its application, Lyon District proposed to allocate \$10,640 of various Water Division expenses to its Sewer Division.²⁸ Lyon District proposed to allocate these expenses in proportion to the number of customers served by

²² Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference B.

²³ Lyon District's Response to Staff's Second Request, Item__6_2022_Non_Recurring_Charges.xlsx.

²⁴ Case No. 2021-00391, (filed Feb. 10, 2022), Lyon District's Response to Staff's First Request, Item 16.

²⁵ Lyon District's Response to Staff's First Request, Item__16_Water_Meter_Tap.pdf.

²⁶ Lyon District's Response to Staff's Second Request, Item 6.

²⁷ Commission Staff's Report at 14.

²⁸ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations, Reference D.

each division.²⁹ The table below shows the individual allocation amounts. Commission Staff found that Lyon District’s proposed allocation of \$467 to its Sewer Division Taxes Other Than Income was understated by \$79.³⁰ Additionally, Commission Staff adjusted Employee Benefits, which resulted in a \$377 reduction in the allocated amount.³¹ The total adjusted allocation to the Sewer Division is \$10,340. Commission Staff recommended that the Commission approve the proposed allocations³² because the proposed method was a reasonable approach to allocations.

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

The Commission finds Commission Staff’s recommended adjustments are reasonable and should be accepted. Lyon District’s method of allocation based upon the number of customers is reasonable and consistent with precedent.³³ Therefore, Salaries and Wages – Employees expense should be decreased by \$6,105; Salaries and Wages – Officers should be decreased by \$633; Employee Benefits expense should be decreased by \$2,028; Insurance – General Liability & Other should be decreased by

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

³⁰ Commission Staff’s Report at 15.

³¹ Commission Staff’s Report at 15, 17, and 24.

³² Commission Staff’s Report at 15 and 27.

³³ Case No. 2021-00094, *Electronic Application of Garrison-Quincy-KY-O-Heights Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 24, 2021); and Case No. 2017-00371, *Application of Symsonia Water and Sewer District for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 30, 2018).

\$879; Insurance – Workers Compensation should be decreased by \$149; and Taxes other than Income should be decreased by \$546 in order to properly allocate the expenses to the Sewer Division.

Salaries and Wages – Employees: Lyon District proposed a \$5,595 decrease to Salaries and Wages – Employees expense to reflect an increase in wage rates, which was offset by changes in personnel.³⁴ Commission Staff reviewed Lyon District’s 2022 general ledger³⁵ and adjustment calculation³⁶ and determined that the proposed adjustment is an accurate representation of the decrease in the annual labor expense to Lyon District.³⁷ Commission Staff recommended that the Commission accept Lyon District’s adjustment because it is known and measurable.³⁸

The Commission finds Commission Staff’s recommended adjustment is reasonable and should be accepted. Lyon District’s Salaries and Wages – Employees should be decreased by \$5,595, because the adjustment to normalize Salaries and Wages – Employees is a known and measurable change reflected in the evidence provided in record.

Employee Benefits (Medical and Dental): Lyon District reported \$34,200 in combined medical, dental and retirement benefits in its test year.³⁹ Commission Staff

³⁴ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference C.

³⁵ Lyon District’s Response to Staff’s First Request, Item 1a, General Ledger.

³⁶ Lyon District’s Response to Staff’s First Request, Rate Study File, Wages tab.

³⁷ Commission Staff’s Report at 15–16.

³⁸ Commission Staff’s Report at 15–16.

³⁹ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division.

explained that separation of the medical and related benefit costs from retirement benefits more accurately reflects and explains the respective adjustments, and reclassified \$2,020 of expense, which is the test year amount, to Retirement – CERS.⁴⁰ Commission Staff also combined the amounts from Lyon District’s Retirement – CERS and Employee Benefits – Medical and Dental Expenses that are to be reallocated to the sewer division into one line item. In its application, Lyon District proposed to reclassify \$14,771 in payroll taxes from Employee Benefits to Taxes Other Than Income.⁴¹ Lyon District did not propose any adjustment to medical expenses. Commission Staff reviewed Lyon District’s most recent medical insurance invoice and general ledger postings and calculated an increase of \$10,848.⁴² Lyon District did not make an adjustment to reflect the allowable health insurance premium based on the Bureau of Labor Statistics’ (BLS) national average for an employer’s share of health insurance premiums⁴³ and the Willis Benchmarking Survey for national average for an employer’s share of dental insurance that is consistent with Commission precedent.⁴⁴ Commission Staff reviewed the costs of coverage and withholding amounts reported for test year payroll and calculated adjustments to reduce medical and dental costs by \$8,020 and \$848, respectively for a

⁴⁰ Commission Staff’s Report at 17.

⁴¹ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference E.

⁴² Lyon District’s Response to Staff’s First Request, Items 1a and 6.

⁴³ U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Single Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t03.htm>, U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Family Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t04.htm>.

⁴⁴ See Case No. 2016-00434, *Application of Shelby Energy Cooperative, Inc. for an Increase in its Retail Rates* (Ky. PSC July 31, 2017), final Order at 7; and The Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

total net adjustment of \$8,868, resulting in a pro forma amount of \$23,429 as shown in the table below:⁴⁵

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

The Commission finds that Commission Staff's recommended adjustments are reasonable. Lyon District's Employee Benefits – Medical and Dental should be decreased by \$2,020 to reflect the reclassification of retirement expenses to the Retirement - CERS category. In addition, Employee Benefits should be further decreased by \$14,771 to reflect the reclassification of payroll taxes to Taxes other than Income, to reflect the reclassification of payroll taxes into the correct category. Also, Employee Benefits – Medical and Dental should be increased by \$10,848 in order to reflect the most recent invoice provided in the case record for medical and dental coverage. Finally, the Commission finds Employee Benefits should be decreased by \$8,868, to better align with the BLS contribution employee contribution levels, because it is consistent with the precedent established in previous cases regarding the evaluation of employees' total compensation packages for market and geographic competitiveness that ensure the development of a fair, just and reasonable rate.

⁴⁵ Commission Staff's Report at 16–18.

Retirement – CERS: Lyon District participates in the CERS, which is managed by the Kentucky Public Pensions Authority (KPPA).⁴⁶ As discussed above Commission Staff proposed to increase Retirement – CERS by \$2,020 to account for the reclassification of expenses from the Employee Benefits (Medical and Dental).

Lyon District proposed an increase of \$48,828, which the Lyon District stated was necessary to reverse journal entries made by Lyon District’s auditor for General Accounting Standards Board (GASB) Statements 68 and 75.⁴⁷ Commission Staff reviewed the change in Lyon District’s net retirement liability and determined that the adjustment should have been an increase of \$48,432 resulting in a \$396 reduction to the proposed adjustment.⁴⁸

Commission Staff recalculated the required CERS contribution based on the 2024 KPPA contribution rate⁴⁹ which resulted in a \$12,230 reduction for a net contribution adjustment of \$34,182 as shown in the following table.⁵⁰ Commission Staff recommended the Commission accept the adjustments because they are known and measurable based on the most recent standard contribution rate as provided by KPPA and the calculated Salaries and Wages.⁵¹

⁴⁶ *Audit Report of Lyon District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Audit Report), at 22.

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

⁴⁸ Commission Staff’s Report at 19.

⁴⁹ KPPA Contribution Rates, <https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>.

⁵⁰ Commission Staff’s Report at 19.

⁵¹ Commission Staff’s Report at 18–19.

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

The Commission finds that Commission Staff's recommendation should be modified, since the CERS contribution adjustment recommended does not result in the calculated pro forma determined. First, Lyon District's Retirement – CERS should first be increased by the recommended \$2,020, to account for the reclassification of expenses from the Employee Benefits (Medical and Dental). Second, Lyon District's Retirement – CERS should be decreased by the recommended \$12,230, because the adjustment, as modified by Commission Staff, is a known and measurable change based on the most recent standard contribution rate as provided by KPPA and a review of the journals. Finally, Lyon District's Retirement – CERS needs to be decreased by \$4,040, to reflect the further adjustment needed to properly calculate the pro forma CERS contribution amount of \$34,182.⁵² The adjustment results in a decrease to the Revenue Requirement of \$4,040 and is mathematically consistent with the calculation of Retirement – CERS contributions.

Purchased Water Expense: In its application, Lyon District did not propose an adjustment to its Purchased Water expense. Commission Staff calculated a net \$18,493 increase to correct pro forma cost-of-water purchases, as shown in the table below.⁵³ Commission Staff recommended this adjustment because it reflects the current purchase

⁵² Commission Staff's Pro Forma CERS Contribution amount \$38,222 Less Commission Determined Pro Forma CERS Contribution \$34,182 = Commission Adjustment (\$4,040).

⁵³ Commission Staff's Report at 19–20.

rates of each of Lyon District’s water vendors⁵⁴ and the corrected number of gallons purchased by Lyon District as submitted in response to Staff’s Second Request.⁵⁵

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

The Commission finds Commission Staff’s recommended adjustment is reasonable and should be accepted. Lyon District’s Purchased Water expense is increased by \$18,493 since Commission Staff’s calculation of Normalized Purchased Water expense is based upon test year gallons usage and the current rates.

Purchased Power Expense: In its application, Lyon District did not propose an adjustment to its Purchased Power expense. Upon review of Lyon District’s general ledger,⁵⁶ Commission Staff found that Lyon District’s Purchased Power was classified in Materials and Supplies expense and proposed to reclassify \$17,370 to Purchased Power Expense.⁵⁷ Commission Staff recommended the Commission accept its adjustment because it reflects the appropriate classification of expenses incurred by Lyon District.⁵⁸

The Commission finds Commission Staff’s recommended adjustment is reasonable and should be accepted. Lyon District’s Purchased Power expense is

⁵⁴ Lyon District’s Response to Staff’s Second Request, Item 4.

⁵⁵ Lyon District’s Response to Staff’s Second Request, 2022_Gallons_Purchased.xlsx.

⁵⁶ Lyon District’s Response to Staff’s First Request, Item 1a, General Ledger.

⁵⁷ Commission Staff’s Report at 20.

⁵⁸ Commission Staff’s Report at 20.

increased by \$17,370, in order to properly classify the purchased power expenses into the correct category.

Materials and Supplies: In its application, Lyon District did not propose an adjustment to its Materials and Supplies expense. To account for the reclassification of Purchased Power as addressed above, Commission Staff proposed to remove \$17,370 from Materials and Supplies.⁵⁹ Commission Staff recommended that the Commission accept this adjustment because it is necessary in reclassifying Lyon District's Purchased Power Expense.⁶⁰

The Commission finds Commission Staff's recommended adjustment is reasonable and should be accepted. Lyon District's Materials and Supplied expense is decreased by \$17,370, in order to properly classify the purchased power expenses into the correct category.

Contractual Services: In its application, Lyon District proposed a \$61,392 increase to its Contractual Services to reflect the costs of upgrading its billing software as quoted by United Systems.⁶¹ Commission Staff reviewed the quotes⁶² for initial fees as well as monthly application and service charges sent to Lyon District by United Systems and concluded that Lyon District's proposed adjustment did not accurately reflect the cost of services. Commission Staff recommended a corrected amount of the monthly application and service charges of \$4,563, or \$54,756 for the year.⁶³ Initial fees are discussed in the

⁵⁹ Commission Staff's Report at 20.

⁶⁰ Commission Staff's Report at 20.

⁶¹ Lyon District's Response to Staff's Second Request, Item 3, Quotes.

⁶² Lyon District's Response to Staff's Second Request, Item 3.

⁶³ Commission Staff's Report at 20–21.

Amortization adjustment below. Commission Staff recommended increasing Contractual Services by \$54,756, for a Pro Forma amount of \$170,390, to more accurately reflect the quotes provided to Lyon District, and recommended the Commission accept Commission Staff's adjustment as a known and measurable change to Lyon District's Contractual Services.⁶⁴

The Commission finds Commission Staff's recommended adjustment is reasonable and should be accepted. Lyon District's Contractual Services expense is increased by \$54,756, in order to properly reflect the quotes provided to Lyon District from United Systems as reflected in the case record.

Depreciation Expense: In its application, Lyon District proposed a decrease of \$93,336 to its Depreciation Expense to reflect adjustments of asset service lives to the midpoint of service life range set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled, *Depreciation Practices for Small Water Utilities* (NARUC Study).⁶⁵ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically found that the NARUC Study sets

⁶⁴ Commission Staff's Report at 20–21.

⁶⁵ 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).

forth reliable methods to measure depreciation.⁶⁶ When no evidence of record supports a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.⁶⁷ In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff agreed with Lyon District's proposed adjustment, to align with the NARUC service lives, and recommended accepting the decrease pro forma Depreciation Expense by \$93,336.⁶⁸

The Commission finds Commission Staff's recommended adjustment is reasonable and should be accepted. Lyon District's Depreciation expense is decreased by \$93,336, in order to align Lyon District's capital assets' useful lives with the NARUC recommended useful lives.

Amortization Expense: In its application, Lyon District proposed an increase of \$6,045⁶⁹ to Amortization to reflect the five-year amortization of the installation costs and annual fees quoted by United Systems to upgrade Lyon District's billing software.⁷⁰ As previously stated, Commission Staff reviewed quotes for services by United Systems⁷¹ and found that Lyon District's proposed adjustment did not accurately reflect the Amortization Expense that will be incurred based on United Systems' quotes, and that a

⁶⁶ See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), final Order.

⁶⁷ See Case No. 2016-00163, (issued Aug. 11, 2016), Commission Staff Report at 28–32.

⁶⁸ Commission Staff's Report, at 21–22.

⁶⁹ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Adjustment G.

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

⁷¹ Lyon District's Response to Staff's Second Request, Item 3, Quotes.

decrease of \$639, resulting in a \$5,406 increase of Amortization Expense, was necessary to accurately reflect the cost of those services.⁷² Commission Staff recommended that this adjustment be accepted as it reflects evidence of record regarding the real cost of the software upgrade.⁷³

The Commission finds Commission Staff's recommendation is reasonable and should be accepted. Lyon District's Amortization expense is increased by \$5,406 to reflect the actual quote provided to Lyon District to upgrade its billing software as provided in the case record.

Taxes other than Income: In its application, Lyon District proposed an increase of \$14,771 to Taxes Other Than Income to reclassify them to the proper account.⁷⁴ Commission Staff reviewed Lyon District's general ledger⁷⁵ and agreed that this reclassification better reflects taxes incurred by Lyon District.⁷⁶ Thus, Commission Staff recommended that the Commission accept this adjustment as a known and measurable increase to Taxes Other Than Income.⁷⁷ Lyon District also proposed a decrease of \$1,504 to Taxes Other Than Income to reflect changes to its payroll taxes as a result of the adjustment made to Salaries and Wages, as discussed previously.⁷⁸ Commission

⁷² Commission Staff's Report at 22.

⁷³ Commission Staff's Report at 22.

⁷⁴ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference E.

⁷⁵ Lyon District's Response to Staff's First Request, Item 1a, General Ledger.

⁷⁶ Commission Staff's Report at 22–23.

⁷⁷ Commission Staff's Report at 22–23.

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

Staff recommended that this adjustment be accepted to account for the decrease in Taxes Other Than Income due to Salaries and Wages decreasing. Finally, as discussed above, Lyon District proposed to reallocate \$467 from its Water Division to its Sewer Division.⁷⁹ While Commission Staff agreed with the methodology used to determine the amount allocated, an error was identified in the calculation of this amount which understated it by \$79.⁸⁰ Commission Staff corrected this error by increasing the allocation to the Sewer Division by that amount, resulting in an equal decrease of \$79 to the Water Division's Taxes Other Than Income.

The Commission finds Commission Staff's recommendations are reasonable and should be accepted. Lyon District's Taxes other than Income is first increased by \$14,771 to reflect the reclassification of Payroll taxes from Employee Benefits to Taxes other than Income. Lyon District's Taxes other than Income should also be decreased by \$1,504 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees. The Commission also finds the correction of the calculation error resulting an increase to the sewer allocation of \$79 and in turn an equal decrease of \$79 to the Water Division's Taxes Other Than Income to be reasonable and should be accepted, for a total reallocation of \$546.

SUMMARY OF ADJUSTMENTS

Based upon the Commission's findings discussed above, the following table summarizes Lyon District's adjusted pro forma for its Water Division:

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

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

WATER DIVISION:

Description	Commission Staff Report Pro Forma	Commission Adjustments	Final Pro Forma
Total Operating Revenues	\$ 1,451,534	\$ -	\$ 1,451,534
Total Operating Expenses	1,300,342	(4,040)	1,296,302
Net Operating Income	151,192	4,040	155,232
Interest Income	1,064	-	1,064
Total Utility Operating Income	<u>\$ 152,256</u>	<u>\$ 4,040</u>	<u>\$ 156,296</u>

SEWER DIVISION:

Description	2022 Test Year	Total Adjustment	Commission Staff Report Pro Forma	Commission Adjustments	Commission Approve Pro Forma
Operating Revenues					
Total Sewer Sales	\$ 23,463	\$ 878	\$ 24,341	\$ -	\$ 24,341
Total Operating Revenues	<u>23,463</u>	<u>878</u>	<u>24,341</u>	<u>-</u>	<u>24,341</u>
Operating Expenses					
Operation and Maintenance Expenses					
Salaries	-	6,738	6,738	-	6,738
Employee Pensions and Benefits	-	2,028	2,028	-	2,028
Insurance	-	1,028	1,028	-	1,028
Pumping System	27,139		27,139	-	27,139
Total Operation and Maintenance Expense	<u>27,139</u>	<u>9,794</u>	<u>36,933</u>	<u>-</u>	<u>36,933</u>
Depreciation Expense	21,693	(5,165)	16,528	-	16,528
Taxes Other Than Income	0	546	546	-	546.00
Total Operating Expenses	<u>48,832</u>	<u>5,175</u>	<u>54,007</u>	<u>-</u>	<u>54,007</u>
Net Operating Income	<u>(25,369)</u>	<u>(4,297)</u>	<u>(29,666)</u>	<u>-</u>	<u>(29,666)</u>
Income Available to Service Debt	<u>\$ (25,369)</u>	<u>\$ (4,297)</u>	<u>\$ (29,666)</u>	<u>\$ -</u>	<u>\$ (29,666)</u>

PRO FORMA OPERATING STATEMENT

Billing Analysis: Lyon District proposed an adjustment to its test year general sewer sales revenues of \$23,463.⁸¹ Commission Staff reviewed the billing analysis and

⁸¹ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Reference A.

recommended an increase to test year general sewer sales revenues of \$878.⁸² This adjustment establishes a normalized test year general sewer sales revenue of \$24,341. Commission Staff recommended that the Commission approve these adjustments.

The Commission finds that the billing adjustments and the normalized Sewer Sales to Retail Customers revenue of \$24,341 are known and measurable amounts, and the adjustment to pro forma Operating Revenues is reasonable.

Allocation of Shared Expenses: Lyon District proposed the allocation of several shared expenses between its Water and Sewer Divisions based on the number of customers served by each division.⁸³ With the modifications addressed above, and in the following table, the Sewer Division’s operating expenses have been increased by \$10,340. As discussed previously, Commission Staff recommended that Lyon District’s allocation methodology is consistent with Commission precedent, and that the adjustments as calculated in in the table below be accepted.⁸⁴

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

The Commission finds Commission Staff’s recommended adjustments are reasonable and should be accepted. Lyon District’s method of allocation based upon the

⁸² Commission Staff’s Report at 24.

⁸³ Lyon District’s Response to Staff’s First Request, Item 2.

⁸⁴ Commission Staff’s Report at 24–25.

number of customers is reasonable and consistent with existing precedent.⁸⁵ Therefore, Salaries and Wages – Employees should be increased by \$6,105; Salaries and Wages – Officers should be increased by \$633 for a net adjustment to Salaries of \$6,738. In addition, Employee Benefits expense should be increased by \$2,028; Insurance – General Liability & Other should be increased by \$879 and Insurance – Workers Compensation should be increased by \$149 for a net increase to Insurance of \$1,028; and Taxes other than Income should be increased by \$546, in order to properly allocate the expenses to the Sewer Division, to Reflect the proper allocation of expenses between the Water and Sewer divisions.

Depreciation Expense: In its application, Lyon District proposed a decrease of \$5,165 to its Sewer Division Depreciation expense to reflect adjustments of asset service lives to midpoint of service life range set forth in the NARUC Study as discussed above.⁸⁶ In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff agreed with Lyon District's proposed adjustment and recommends accepting the decreased pro forma Depreciation expense by \$5,165.⁸⁷

The Commission finds Commission Staff's recommended adjustment is reasonable and should be accepted. Lyon District's Depreciation expense is decreased by \$5,165, in order to align Lyon District's capital assets' useful lives with the NARUC recommended useful lives.

⁸⁵ Case No. 2021-00094, Nov. 24, 2021 Order and Case No. 2017-00371, Mar. 30, 2018 Order.

⁸⁶ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Sewer Division, Reference H.

⁸⁷ Commission Staff's Report at 26.

SUMMARY OF ADJUSTMENTS

Based upon the Commission's findings discussed above, the following table summarizes Lyon District's adjusted pro forma:

Description	Commission Staff Report Pro Forma	Commission Adjustments	Final Pro Forma
Total Operating Revenues	\$ 24,341	\$ -	\$ 24,341
Total Operating Expenses	54,007	-	54,007
Net Operating Income	(29,666)	-	(29,666)
Total Utility Operating Income	\$ (29,666)	\$ -	\$ (29,666)

OVERALL REVENUE REQUIREMENT

WATER DIVISION

Commission Staff's Report recommended using the Debt Service Coverage (DSC) method, a method the Commission has historically utilized, to calculate the Overall Revenue Requirement of water districts and water associations.⁸⁸ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;⁸⁹ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that

⁸⁸ See Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022); and Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

⁸⁹ 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).

is in addition to depreciation expense. The table below reflects Commission Staff's and the Commission-approved calculated revenue requirement.

Description	Commission Staff's Report	Commission Approved	
Pro Forma Operating Expenses	\$ 1,300,342	\$ 1,296,302	
Plus: Average Annual Principal and Interest Payments	291,041	291,041	(1)
Additional Working Capital	58,208	58,208	(2)
Overall Revenue Requirement	1,649,591	1,645,551	
Less: Other Operating Revenue ()	(20,356)	(20,356)	
Interest Income ()	(1,064)	(1,064)	
Revenue Required from Rates	1,628,171	1,624,131	
Less: Pro Forma Present Rate Service Revenues ()	(1,431,178)	(1,431,178)	
Required Revenue Increase	\$ 196,993	\$ 192,953	
Percentage Increase	13.76%	13.48%	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Lyon District had one Kentucky Infrastructure Authority (KIA) loan, one United States Department of Agriculture (USDA), Rural Development (RD) loan, and one Regions loan.⁹⁰ Lyon District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2024 through 2028.⁹¹ Commission Staff agreed with the methodology Lyon District proposed and included \$291,041 in the calculation of the revenue requirement. The Commission agrees with Commission Staff's calculated Average Annual Principal and Interest Payments, finding them reasonable and that they amounts should be accepted.

⁹⁰ 2022 Audit Report at 20.

⁹¹ Application, Exhibit A, Table B – Debt Service Schedule.

2. Additional Working Capital. The DSC method, as historically applied by the Commission,⁹² includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. Lyon District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual payments. Following the Commission's historic practice of including additional working capital, \$58,208 is included in the revenue requirement. The Commission agrees with Commission Staff's calculated Additional Working capital and finds it reasonable, and it should be accepted.

SEWER DIVISION

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

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

⁹² See Case No. 2022-00124, Oct. 24, 2022 Order; and Case No. 2021-00475, June 28, 2022 Order.

Description	Commission Staff's Report	Commission Approved
Pro Forma Operating Expenses	\$ 54,007	\$ 54,007
88% Operating Ratio	0.88	0.88
Overall Revenue Requirement	61,372	61,372
Less: Other Operating Revenue	0	0
Interest and Investment Income	0	0
Revenue Required from Rates	61,372	61,372
Less: Pro Forma Present Rate Service Revenues ()	(24,341)	(24,341)
Required Revenue Increase	<u>\$ 37,031</u>	<u>\$ 37,031</u>
Percentage Increase	<u>152.13%</u>	<u>152.13%</u>

The Commission agrees with Commission Staff's recommended Revenue Requirements for both the water and sewer divisions and finds them reasonable, and it should be accepted.

RATE DESIGN

WATER DIVISION

Lyon District's application proposed to increase its monthly retail and wholesale water service rates by approximately 16.04 percent across all customer classes. Lyon District stated that it did not complete a cost-of-service study (COSS) at this time, but has plans for a new COSS when there are significant material changes in its water system.⁹³ In Commission Staff's Report, removal of fire protection rates from the proposed billing analysis was discussed.⁹⁴ Lyon District's tariff indicates that fire protection charges are only levied if a monthly water usage report is not provided to the utility, as there is no rate

⁹³ Commission Staff's Report at 5.

⁹⁴ Commission Staff's Report at 5.

in Lyon District's tariff specifically for fire protection entities.⁹⁵ In the absence of a monthly water usage report, Lyon District charges the fire protection entity approximately 0.3 percent of the total water sales used for the month; as stated in the current tariff on file with the Commission.⁹⁶ As such, the Commission accepts the removal of fire protection rates from the proposed rate billing analysis as reasonable.

The Commission has previously found that the allocation of a revenue adjustment evenly across 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.⁹⁷ Finding no such evidence in this case, Commission Staff followed the allocation methodology proposed by Lyon District and allocated the recommended \$192,953 revenue increase evenly across Lyon District's monthly retail water service rates.

The Commission accepts Commission Staff's recommendation and finds that this allocation is reasonable. The rates set forth in Appendix B to this Order are based upon the total revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues to recover the \$1,624,131 Revenue Required from Water Sales, an approximate 13.48 percent increase. In the rate study provided by Lyon District, there was a \$162,579 decrease to water sales because of various billing adjustments.⁹⁸ Therefore, to properly meet the \$1,624,131 Revenue Requirement from

⁹⁵ Lyon District's Tariff, unnumbered page 9, Fire Departments.

⁹⁶ Lyon District's Tariff, unnumbered page 9, Fire Departments.

⁹⁷ See Case No. 2017-00309, *Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 14, 2017), final Order at 5.

⁹⁸ Lyon District's Response to Staff's First Request, Item 2, Rate_Study_Lyon_County_Water_District.xlsx.

Water Sales, while providing fair, just and reasonable rates to Lyon District’s customers, the rate tiers will increase by approximately 12.67 percent. The rates will increase the monthly water bill of a typical residential customer using 4,000 gallons, from \$50.98 to \$57.44, an increase of \$6.46, or 12.67 percent.⁹⁹

Forfeited Discounts. As noted above, Lyon District proposed an adjustment from Water Sales to reclassify certain revenues to Forfeited Discounts.¹⁰⁰ Lyon District stated that \$16,979 of these revenues should be reported as Forfeited Discounts.¹⁰¹ Commission Staff confirmed the adjustment through information provided in the application and reclassified these amounts.¹⁰² The Commission finds that Commission Staff’s adjustments are reasonable because the evidence filed into the case record has been analyzed and evaluated by Commission Staff and is consistent with existing precedent.¹⁰³

⁹⁹ $\$57.44 - \$50.98 = \$6.46$ (Average Bill New Water Rates) - \$50.98 (Average Bill Current Water Rates) = \$6.46 (Total Difference in Customer Bill) ÷ \$50.98 (Average Bill Current Water Rates) = 12.67%.

¹⁰⁰ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference B.

¹⁰¹ Response to Filing Deficiencies, Exhibit A, Schedule of Adjusted Operations – Water Division, Reference B.

¹⁰² Commission Staff’s Report at 13.

¹⁰³ Case No. 2023-00299, *Electronic Application of Magoffin County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 24, 2024); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 5, 2024); Case No. 2023-00258, *Electronic Application of Kirksville Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00220, *Electronic Application of East Casey County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 21, 2024).

Nonrecurring Charges. Lyon District's nonrecurring charges were reviewed.¹⁰⁴

The Commission has found that, because district personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. The cost justification information provided by Lyon District was reviewed and adjusted by removing Field Labor Costs and Office/Clerical Labor Costs from those charges which occur during normal business hours.¹⁰⁵ Such adjustments result in the following nonrecurring charges:

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

The tables in Appendix A show the calculations of the adjustment of the amount of each nonrecurring charge. Therefore, the Commission finds that nonrecurring charges each be reduced by the estimated labor costs stated in the cost justification sheets, unless the activity occurs outside of business hours. The Commission accordingly finds the revised nonrecurring charges set out in Appendix B are reasonable and should be

¹⁰⁴ 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).

¹⁰⁵ Lyon District's Response to Staff's First Request, Item 15.

accepted, and as discussed above, that a decrease of \$5,424 to Other Water Revenue is reasonable.

Tap Fees. Lyon District did not initially request an increase in the tap fee. However, Lyon District filed a cost justification to increase its 5/8" x 3/4" Meter Tap Fee and its 1" Meter Tap Fee.¹⁰⁶ The cost justification information was reviewed, and Commission Staff recommended that the Commission accept the increase for the 5/8" x 3/4" Meter Tap Fee from \$1,022 to \$1,265 and the 1" Meter Tap Fee from \$1,382 to \$1,680.¹⁰⁷

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

SEWER DIVISION

Lyon District proposed to increase its monthly retail sewer service rates by approximately 153.67 percent across the board in its application.¹⁰⁸ Lyon District did not perform a COSS for its sewer rates at this time as there have been no material changes to the sewer system.¹⁰⁹ While accepting Lyon District's 153.67 percent across the board increase, Commission Staff recommended a phased-in approach to avoid placing undue hardship on Lyon District's sewer customers. The Commission has previously accepted

¹⁰⁶ Lyon District's Response to Staff's First Request, Item 16.

¹⁰⁷ Commission Staff Report at 8.

¹⁰⁸ Response to Filing Deficiencies, Exhibit A, Revenue Requirements – Sewer Division.

¹⁰⁹ Lyon District's Response to Staff's First Request, Item 13.

a phased-in approach to a rate increase to ease the impact on customers¹¹⁰ but still allow the utility to meet its financial and debt obligations.¹¹¹ Following a phased-in approach, Commission Staff calculated a three-year phase-in for the rate increase for sewer operations, which can be found in Appendix B.

The rates in Phase 1, which will be effective as of the date of this Order, represent a 33.3 percent increase in the revenue requirement. The rates in Phase 2, will be effective one year after the date of this Order, represent a 33.3 percent increase in the revenue requirement. The rates set forth in Phase 3, will be effective two years after the date of this Order, and represent a 33.3 percent increase in the revenue requirement. The rates set forth in Appendix B to this Order are based upon the total revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from sewer sales after the third phase for Lyon District to recover the \$30,030 revenue required from rates.

The Commission accepts Commission Staff's recommendation for a phase-in approach to reduce rate shock and allow Lyon District's sewer customers the ability to gradually adjust to the significant rate increase over time and finds that this allocation is reasonable. The rates set forth in Appendix B to this Order are based upon the total revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from sewer sales to recover the \$61,372 Revenue Required from Rates, an approximate 152.13 percent increase by the third phase.

¹¹⁰ See Case No. 2005-00072, *The Application of Henderson County Water District for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC Apr. 28, 2005), Order at 2-5.

¹¹¹ See Case No. 2021-00415, *Electronic Application of Bracken County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 27, 2022), Order at 16-17.

The Phase 1 rates will increase a typical residential customer's monthly sewer bill from \$25.60 to \$37.61, an increase of \$12.01, or approximately 46.90 percent.¹¹² The Phase 2 rates will increase a typical residential customer's monthly sewer bill from \$37.61 to \$51.55, an increase of \$13.94, or approximately 37.07 percent. The Phase 3 rates will increase a typical residential customer's monthly sewer bill from \$51.55 to \$64.56, an increase of \$13.01, or approximately 25.24 percent.

Tap Fees. Lyon District did not initially request an increase in the tap fee. However, Lyon District filed a cost justification sheet to increase its Sewer Tap-On Fee.¹¹³ Commission Staff reviewed the cost justification information and recommended that the Commission accept the Sewer Tap-On Fee increase for from \$550 to \$1,554.¹¹⁴

The Commission accepts Commission Staff's recommendation because the amounts are known and measurable and finds that this increase is reasonable. As noted, earlier, a utility should recover the full amount of this expense.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report, along with the above stated modifications, are supported by the evidence of record and are reasonable. By applying the DSC method to Lyon District's Water Division's pro forma operations results in an Overall Revenue Requirement of \$1,645,553 and that a \$192,955 revenue increase, or 13.48 percent, to pro forma present rate

¹¹² The typical residential customer usage is approximately 4,000 gallons per month.

¹¹³ Lyon District's Response to Staff's First Request, Item 16, Item__16_Sewer_Connection_Tap.pdf.

¹¹⁴ Commission Staff's Report at 11.

revenues is necessary to generate the Overall Revenue Requirement. By applying the OR method to Lyon County District's Sewer Division's pro forma operations results in an Overall Revenue Requirement of \$61,372 and that a \$37,031 revenue increase, or 152.13 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report, as modified above, are adopted, and incorporated by reference into this Order as if fully set out herein.

2. The water service rates proposed by Lyon District are denied.

3. The sewer service rates proposed by Lyon District are denied.


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

5. The sewer service rates set forth in Appendix B to this Order are approved for service rendered by Lyon District on or after the date of this Order.

6. Within 20 days of the date of service of this Order, Lyon 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.

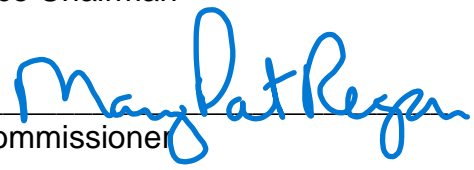
7. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

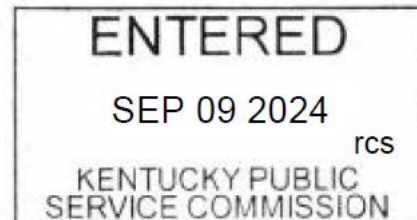


Chairman

Vice Chairman



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00352 DATED SEP 09 2024

Nonrecurring Charges Adjustments

*denotes rounding

Field Collection Charge

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

Meter Read-Out/Meter Reread Charge

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

Reconnection Charge

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

Meter Test

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

Returned Check Charge

	Lyon Revised Charge	Staff Revised Charge
Field Labor	\$0.00	\$0.00
Supplies	1.80	1.80
Office Labor	9.20	0.00
Transportation Expense	0.00	0.00
Bank Fee	<u>6.00</u>	<u>6.00</u>
Total Nonrecurring Charge Expense	\$17.00	\$8.00*
Current Rate	\$30.00	

Water Meter Tap Fee Expense

Meter Size 5/8-Inch

Materials Expense	\$ 679.73
Service Pipe Expense	\$ 9.63
Installation Labor Expense	\$ 260.85
Installation Equipment Expense	\$ 250.00
Installation Miscellaneous Expense	\$ 52.17
Administrative Expense	<u>\$ 12.50</u>
TOTAL EXPENSE	<u>\$1,265.00*</u>

Sewer Connection Expense

Materials Expense	\$ 604.71
Service Pipe Expense	\$ 169.40
Installation Labor Expense	\$ 365.19
Installation Equipment Expense	\$ 350.00
Installation Miscellaneous Expense	\$ 52.17
Administrative Expense	<u>\$ 12.50</u>
TOTAL EXPENSE	<u>\$1,554.00*</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00352 DATED SEP 09 2024

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

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$	30.99	Minimum Bill
Next	3,000 Gallons		0.01323	Per Gallon
Next	5,000 Gallons		0.00948	Per Gallon
Next	10,000 Gallons		0.00798	Per Gallon
Over	20,000 Gallons		0.00708	Per Gallon

1-Inch Meter

First	15,000 Gallons	\$	146.65	Minimum Bill
Next	5,000 Gallons		0.00798	Per Gallon
Over	20,000 Gallons		0.00708	Per Gallon

1 1/2-Inch Meter

First	25,000 Gallons	\$	199.33	Minimum Bill
Over	25,000 Gallons		0.00708	Per Gallon

2-Inch Meter

First	45,000 Gallons	\$	358.77	Minimum Bill
Over	45,000 Gallons		0.00708	Per Gallon

Nonrecurring Charges

Field Collection Charge	\$7.00
Meter Reconnection Charge	\$10.00
Meter Read-Out Charge	\$7.40
Recheck Charge	\$7.40
Meter Reread Charge	\$7.40
Meter Test Charge	\$35.40
Returned Check Charge	\$8.00

Tap Fees

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

Monthly Sewer Rates

		Phase 1	
First	2,000 Gallons	\$	22.61 Minimum Bill
Over	2,000 Gallons		0.00798 Per Gallon
		Phase 2	
First	2,000 Gallons	\$	30.21 Minimum Bill
Over	2,000 Gallons		0.01067 Per Gallon
		Phase 3	
First	2,000 Gallons	\$	37.84 Minimum Bill
Over	2,000 Gallons		0.01336 Per Gallon

Tap Fees

Sewer Connection	\$1,554.00
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