

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GRAVES)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2025-00060
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On March 19, 2025,¹ Graves County Water District (Graves District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076.

To comply with the requirements of 807 KAR 5:076, Section 9,² Graves District used the calendar year ended December 31, 2023, as the basis for its application. Graves District's last base rate increase, filed pursuant to the alternative rate filing procedure, was in Case No. 2018-00429³ with final Order rates effective September 30, 2019.⁴ To ensure the orderly review of the application, the Commission established a procedural

¹ Graves District tendered its application on March 10, 2025. By letter dated March 11, 2025, the Commission rejected the application for filing deficiencies. Graves District made a supplemental filing on March 17, 2025, and March 18, 2025. The Commission issued an Order on March 19, 2025, noting that the district still needed to publish notice of the full increase. The deficiencies were subsequently cured and by Order dated April 8, 2025, the application was deemed filed on March 19, 2025.

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. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment*.

⁴ Graves District Current Tariff, PSC KY No 1, Fourth Revised Sheet No. 2.

schedule by Order dated April 23, 2025,⁵ then amended by Order dated July 11, 2025.⁶ Graves District responded to two requests for information from Staff.⁷ Graves District requested a two-week extension⁸ for its responses to Staff's Second Request for Information (Staff's Second Request).⁹ In the Order entered July 11, 2025, the Commission granted the request, amending Graves District's response due date to July 16, 2025, as well as amending the Staff Report due date to August 22, 2025.¹⁰

Staff issued its report (Staff Report) on August 21, 2025,¹¹ summarizing its findings and recommendations regarding Graves District's requested rate adjustment. In the Staff Report, Staff found that Graves District's adjusted test-year operations supported an overall revenue requirement of \$2,831,065 and that a \$880,912 revenue increase, or 46.93 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.¹² In the absence of a cost of service study (COSS), Staff allocated its recommended revenue increase evenly across all customer classes to calculate its recommended water rates.¹³

⁵ Order (Ky. PSC Apr. 23, 2025).

⁶ Order (Ky. PSC July 11, 2025).

⁷ Graves District's Response to Staff's First Request for Information (Staff's First Request) (filed May 29, 2025). Graves District's Response to Staff's Second Request for Information (Staff's Second Request) (filed July 16, 2025).

⁸ Motion filed June 30, 2025.

⁹ Motion filed June 30, 2025.

¹⁰ Order (Ky. PSC July 11, 2025).

¹¹ Commission the Staff Report (Staff Report) (issued Aug. 21, 2025).

¹² Staff Report at 5.

¹³ Staff Report at 5–6.

On September 25, 2025, Graves District filed its response to the Staff Report,¹⁴ after requesting an extension to respond,¹⁵ granted by Order dated September 24, 2025.¹⁶ In its written comments, Graves District stated that it accepts, for purposes of this proceeding, Staff's recommended revenue requirement and the two-phase rate increase for general water service. Graves District had two additional comments in response to the Staff Report, while reserving its right to challenge specific adjustments or methodologies in future cases.¹⁷ First, Graves District requested Commission authorization to extend its existing Water Loss Detection and Repair Program Surcharge of \$5.00 per customer for an additional 60 months and stated that the Staff Report did not address the request.¹⁸ Second, Graves District contested Staff's recommendation to remove labor costs from nonrecurring charges.¹⁹ It argued that Graves District has no employees and that all field work for connection, reconnection, service, tampering, and pressure-reducing services is performed by Mayfield Electric and Water Systems, which bills Graves District on a per-hour basis.²⁰ Because these contractor-billed hours are marginal costs directly caused by the service, Graves District maintains they should

¹⁴ Graves District's Response to the Staff Report (Response to the Staff Report) (filed Sept. 25, 2025).

¹⁵ Graves District's Motion for Deviation to Extend the Time to Respond (filed Sept. 4, 2025).

¹⁶ Order (Ky. PSC Sept. 24, 2025).

¹⁷ Response to the Staff Report at 1.

¹⁸ Response to the Staff Report at 2–8.

¹⁹ Response to the Staff Report at 9.

²⁰ Response to the Staff Report at 10–11.

remain recoverable in the nonrecurring charges.²¹ 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."²² 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

Graves District is a water utility organized pursuant to KRS Chapter 74²³ that owns and operates a distribution system through which it provides retail water service to approximately 4,502 residential customers and 392 commercial customers²⁴ that reside

²¹ Response to the Staff Report at 10–11.

²² *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).

²³ Commission Staff notes that Graves District's audited financial statements for the year ended December 31, 2023, Note 1, Description of Entity & Significant Accounting Policies, states that Graves District was created under Chapter 14 of the Kentucky Revised Statutes, Department of State.

²⁴ *Annual Report of Graves County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 12, 49.

in Carlisle and Graves counties, Kentucky.²⁵ Graves District is operated under a contract with Mayfield Electric and Water Systems²⁶ and has no employees of its own.²⁷

UNACCOUNTED-FOR WATER LOSS

Graves District reported a water loss of 31.9432 percent in its 2023 Annual Report.²⁸ Graves District's unpublished 2024 Annual Report reported water loss of 31.1200 percent.²⁹ 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 2023 total annual cost of water loss to Graves District is \$178,652, while the annual cost of water loss in excess of 15 percent is \$94,760.

Total Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 310,175	\$ 103,380	\$ 145,723	\$ 559,278
Water Loss Percent	31.9432%	31.9432%	31.9432%	31.9432%
Total Water Loss	<u>\$ 99,080</u>	<u>\$ 33,023</u>	<u>\$ 46,549</u>	<u>\$ 178,652</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 310,175	\$ 103,380	\$ 145,723	\$ 559,278
Water Loss in Excess of 15%	16.9432%	16.9432%	16.9432%	16.9432%
Disallowed Water Loss	<u>\$ 52,554</u>	<u>\$ 17,516</u>	<u>\$ 24,690</u>	<u>\$ 94,760</u>

²⁵ Unpublished *Annual Report of Graves County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report), at 49 states 4,520 residential customers and 387 commercial customers.

²⁶ Graves District's Response to Staff's First Request, Item 20, 20.a_2024_Revised_Draft_GCWD_Contract_.pdf.

²⁷ 2023 Annual Report at 13.

²⁸ 2023 Annual Report at 57.

²⁹ 2024 Annual Report at 57.

TEST PERIOD

The calendar year ended December 31, 2023, was used as the test year to determine the reasonableness of Graves District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Graves District's pro forma income statement as follows:

Description	Commission Staff's Report		
	Test Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 2,276,686	\$ (341,787)	\$ 1,934,899
Operating Expenses	2,456,834	28,922	2,485,756
Net Operating Income	(180,148)	(370,709)	(550,857)
Interest Income	0	15,254	15,254
Income Available to Service Debt	<u>\$ (180,148)</u>	<u>\$ (355,455)</u>	<u>\$ (535,603)</u>

REVIEW AND MODIFICATION OF STAFF'S RECOMMENDATIONS

In its application, Graves District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Staff Report, Staff recommended additional pro forma adjustments. The Commission finds that the recommendations contained in the Staff Report should be approved with further modification. In response to the Staff Report, Graves District requested inclusion of labor fees in its nonrecurring charges because they were contractor-billed hours that are marginal costs directly caused by the service and should remain recoverable in the nonrecurring charges.³⁰ The Commission agrees with Graves District's argument for their

³⁰ Response to the Staff Report at 10–11.

inclusion and revised the Nonrecurring Charges discussed below to include labor costs. This resulted in an increase to Miscellaneous Income of \$33,369, which results in a decrease to the required revenue increase in the same amount. The following is the Commission's complete pro forma.

Description	Test Year	Staff Report Adjustments	Staff Report Pro Forma	Commission Modifications	Commission Approved Pro Forma
Operating Revenues					
Revenue from Metered Water Sales	\$ 2,171,725	\$ (284,700) (7,225) (98) (2,729)	\$ 1,876,973		\$ 1,876,973
Other Revenues					
Other Water Revenues	104,961	(47,035)	57,926	33,369	91,295
Total Operating Revenues	2,276,686	(341,787)	1,934,899	33,369	1,968,268
Operation and Maintenance					
Salaries and Wages - Officers	22,225	19,775	42,000		42,000
Purchased Water	312,335	(14,101) 11,941 (52,554)	257,621		257,621
Purchased Power	103,380	(17,516)	85,864		85,864
Chemicals	145,723	(24,690)	121,033		121,033
Materials and Supplies	198,131	(3,627) (3,768)	190,736		190,736
Contractual Services - Management	1,112,225	111,223 (8,640) 14,101	1,228,909		1,228,909
Rents	127,750	-	127,750		127,750
Insurance	25,440	-	25,440		25,440
Bad Debt	23,233	-	23,233		23,233
Miscellaneous	39,189	(5,072)	34,117		34,117
Total	2,109,631	27,072	2,136,703	0	2,136,703
Depreciation Expense	341,954	207 310	342,471		342,471
Taxes Other Than Income	5,249	1,333	6,582		6,582
Total Operating Expenses	2,456,834	28,922	2,485,756	0	2,485,756
Net Operating Income	(180,148)	(370,709)	(550,857)	33,369	(517,488)
Interest Income	-	15,254	15,254		15,254
Income Available to Service Debt	\$ (180,148)	\$ (355,455)	\$ (535,603)	\$ 33,369	\$ (502,234)

Revenue from Metered Water Sales – Surcharge Collections. Graves District proposed a decrease of \$284,700³¹ to remove Leak Detection and Repair Program surcharge collections from Revenues from Metered Water Sales.³² Graves District recorded its surcharge collections as Revenues from Metered Water Sales; however, recording surcharge collection in this manner was inconsistent with the instructions for accounting for the surcharge in ordering paragraph 10(f) for Case No. 2018-00429.³³ The Order required Graves District to consider all surcharge collections as contributions and account for them in the manner that the USoA for Class A and B Water Districts and Associations prescribe. Therefore, Staff agreed with Graves District's adjustment and recommended that the Commission accept the decrease in Revenues from Metered Sales by \$284,700, as Graves District was ordered to record the collections as Contributions in Aid of Construction, not as revenue.³⁴ Staff also recommended Graves District record its surcharge proceeds as prescribed by the USoA going forward.³⁵

The Commission finds that Graves District's adjustment is reasonable because it is consistent with the USoA and therefore, should be accepted.

Revenue from Metered Water Sales – Hickory Area Surcharge. Graves District proposed an adjustment to decrease Revenue from Metered Sales by \$7,225³⁶ to eliminate the debt surcharge of \$1.56 per month for the customers served in the Hickory

³¹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment A.

³² Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment A.

³³ Case No. 2018-00429, Sept. 30, 2019 Order at 13, ordering paragraph 10(f).

³⁴ Staff Report at 12.

³⁵ Staff Report at 12.

³⁶ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment A.

area until June 2021.³⁷ Graves District stated the \$7,225 was misclassified as Hickory Debt Surcharge revenue, but it was actually Water Loss Reduction Surcharge revenue,³⁸ and confirmed no customers have been billed for the Hickory Debt Surcharge that ended in June 2021.³⁹

Staff agreed with Graves District's proposed adjustment and recommended that the Commission accept the \$7,225 decrease to Revenue from Metered Water Sales.⁴⁰ As addressed in the Revenue from Metered Water Sales – Surcharge Collections, Surcharge collections should not be included as part of Revenue from Water Sales, they should be recorded as Contributions in Aid of Construction. Staff recommended the Commission accept Graves District's \$7,225 decrease to Revenue from Metered Water Sales, because it reflects the correction of misclassified surcharge Revenue as part of Revenue from metered Water Sales, into the correct category.⁴¹

The Commission finds that Graves District's adjustment is reasonable because it is consistent with the USoA and therefore, should be accepted.

Revenue from Metered Water Sales – Billing Analysis. Graves District proposed a reduction of \$98 to adjust its Revenue from Metered Water Sales to the amount indicated in its billing analysis.⁴² Staff reviewed the submitted billing analysis and had no adjustments. Therefore, Staff agreed with Graves District's proposed adjustment and

³⁷ Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment A.

³⁸ Graves District's Response to Staff's Second Request, Item 5.

³⁹ Graves District's Response to Staff's Second Request, Item 5.

⁴⁰ the Staff Report at 13.

⁴¹ the Staff Report at 13.

⁴² Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment C.

recommended the Commission accept the adjustment as the amount is known and measurable.⁴³

The Commission finds Graves District's adjustment is reasonable and should be accepted because the adjustment reflects verifiable usage and revenue data that were evaluated and normalized using the information provided in the record.

Other Revenues. Graves District's test year Other Revenues were stated as \$104,961 reported in Misc. Service Revenues.⁴⁴ Graves District proposed three adjustments, totaling \$2,729, as a reclassification from Revenue from Metered Water Sales.⁴⁵ These adjustments increased Forfeited Discounts by \$622, Rent from Water Property by \$1,400, and Other Water Revenues by \$707.⁴⁶ Staff reviewed the Nonrecurring Charge occurrences supplied by Graves District⁴⁷ as well as the general ledger accounts making up Other Revenues.⁴⁸ Staff agreed with the Graves District's reclassification of revenues from Revenue from Metered Water Sales into the proper Other Revenues classifications.⁴⁹ Staff recommended reclassifications, labeled as

⁴³ Staff Report at 13.

⁴⁴ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations.

⁴⁵ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, Adjustments C.

⁴⁶ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, Adjustments C.

⁴⁷ Graves District's Response to Staff's First Request, Item 16, 16_2023_NON-RECURRING_CHARGES.xlsx, Rows 5 thru 33.

⁴⁸ Graves District's Response to Staff's First Request, Item 1a, 1.a_2023_GL_GCWD_redacted.xlsx, Account 471 – Mis. Service Revenues.

⁴⁹ Staff Report at 14.

“Recategorize” in the chart below, of Graves District’s test year amount of \$104,961, which was included as one total sum, into their proper categories.⁵⁰

Staff also determined four additional adjustments were necessary in this account as shown in the table below. First, Staff removed tap fee revenues recorded in Misc. Service Revenues, in the amount \$36,800, which should have been reported as contributed capital as prescribed by the USoA.⁵¹ Second, Staff increased Other Revenues by \$717 to adjust Graves District’s Nonrecurring Charge revenue to what should have recorded in the test year based on its current tariff rates and occurrences reported in the test year.⁵² Third, as discussed above, Staff decreased Other Revenues by \$13,349 to account for changes to Nonrecurring Charges.⁵³ Fourth, Staff decreased Other Revenues by \$332, which were reported as insurance proceeds in Graves District’s general ledger for a net increase to Other Water Revenues of \$375.⁵⁴ As discussed in the modification section above and the Nonrecurring Charges section below, the Commission determined an increase of \$33,369 was necessary to include labor costs in Nonrecurring Charges and the resulting revenue increase from its inclusion. This results in an increase to Other Revenues of \$33,369 from Staff’s recommendation and pro forma Other Revenues of \$91,295 as shown in the table below.

⁵⁰ Staff Report at 14.

⁵¹ USoA, Section 334, Meters and Meter Installation, Note C.

⁵² Graves District’s Response to Staff’s First Request, Item 16, 16_2023_NON-RECURRING_CHARGES.

⁵³ Staff Report at 14.

⁵⁴ Staff Report at 14.

Description	Test Year	Graves District Proposed Adjustments	Commission Adjustments	Total Adjustments	Pro Forma
Late Payment Charge		\$ 622		\$ 622	
			30,447	30,447	31,069
Tap Fees			36,800	36,800	
			(36,800)	(36,800)	-
Misc. Services Revenues (NRCs)			37,714	37,714	
			717	717	
			(13,349)	(13,349)	
			33,369	33,369	58,451
Rents From Water Property		1,400		1,400	1,400
Other Water Revenues	104,961		(104,961)	(104,961)	
		707		707	
			(332)	(332)	375
Total Other Water Revenues	\$ 104,961	\$ 2,729	\$ (16,395)	\$ (13,666)	\$ 91,295
Staff Report Pro Forma ()					(57,926)
Adjustment					\$ 33,369

Staff recommended the Commission accept Graves District's and Staff's adjustments to decrease Other Water Revenues by \$47,035 since the amount meets the ratemaking criteria of being known and measurable, and the methodology is consistent with regulatory accounting standards set forth in the USoA.⁵⁵

The Commission finds that Staff's adjustment to remove tap fee revenues is reasonable because it is consistent with the USoA and therefore should be accepted. However, the Commission modifies Staff's recommendation regarding nonrecurring charges. As explained above, because Graves District performs no in-house labor and relies entirely on contracted labor for activities associated with its nonrecurring charges, the Commission finds it appropriate to include contractor-billed labor in the calculation of

⁵⁵ the Staff Report at 15.

those charges. Accordingly, the Commission approves the revised nonrecurring charges set forth in Appendix B to this Order and the corresponding increase of \$33,369 to Other Water Revenue. The Commission further finds the exclusion of insurance proceeds not expected to recur is reasonable and agrees with Staff's adjustment.

Salaries and Wages - Officers. During the test year, Graves District recorded \$22,225 for Salaries and Wages – Officers.⁵⁶ Graves District provided a list of the current commissioners⁵⁷ and wages.⁵⁸ Graves District also provided a record of its commissioners training attendance.⁵⁹ In its December 2023 meeting, Graves County Fiscal Court authorized an increase in Graves District's Commissioners' Salaries from \$3,600 to \$6,000.⁶⁰ Staff calculated a normalized Salaries and Wages – Officers Expense of \$42,000, which is \$19,775 more than recorded in the test year, as shown in the following table.

⁵⁶ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations.

⁵⁷ Graves District's Response to Staff's First Request, Item 8, 8_2025_Commissioner_Apts_Fiscal_Court_Minutes.pdf.

⁵⁸ Graves District's Response to Staff's Second Request, Item 3, 3_GCWD_Fiscal_Court_Minutes_Authorizing_Com._Comp.pdf.

⁵⁹ Graves District's Response to Staff's First Request, Item 9, 9_Certificates_for_GCWD_Wtr_Commissioner_Training and 9_Mark_Carrico_Commissioner_Training

⁶⁰ Graves District's Response to Staff's Second Request, Item 3, 3_GCWD_Fiscal_Court_Minutes_Authorizing_Com._Comp.pdf.

Commissioners	Pro Forma Salaries
Bill Sears	\$ 6,000
Darren Stone	6,000
Jacob Chambers	6,000
Mark Carrico	6,000
Mickey Grooms	6,000
Phillip Carr	6,000
Steve Mason	6,000
Total Salaries and Wages - Officers	42,000
Test Year Salaries and Wages - Officers	(22,225)
Adjustment	<u>\$ 19,775</u>

Staff recommended the Commission accept Staff's \$19,775 increase to Salaries and Wages - Officers, because it reflects a known and measurable change as it is a normalized year's wages for the Officers.⁶¹

The Commission finds that Staff's recommendation for the recovery of Graves District's commissioners' compensation is reasonable and should be accepted as Graves District provided sufficient evidentiary documentation.

Purchased Water – Reclassification. During the test year, Graves District recorded \$312,335 for Purchased Water Expense.⁶² During Staff's review of Graves District's general ledger accounts for Purchased Water, it identified two transactions that should not have been included as part of Purchased Water.⁶³ Graves District reconciled the Purchased Water account and verified that the transactions were misclassified. One transaction for \$7,798 should have been recorded as account 634 - Contractual Services

⁶¹ Staff Report at 16.

⁶² Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations.

⁶³ Graves District's Response to Staff's First Request, Item 1a, 1.a_2023_GL_GCWD_redacted.xlsx, Account 610, Purchased Water.

- Mgt Fee, and the other transaction for \$6,303 should have been recorded as account 636 Contractual Services – Other.⁶⁴ Therefore, Staff made an adjustment to decrease Purchased Water Expense by \$14,101, as shown in the following table. Staff also made a corresponding \$14,101 increase to Contractual Services to ensure the expenses were recorded in the proper expense category.

610 · Purchased Water				
Date	Code	Vendor	Description	Amount
08/31/2023	AUG23LKDET	MAYFIELD ELECTRIC & WATER SYSTEMS		\$ 7,798
10/23/2023		TUCKER CONSTRUCTION	Roof Repair	6,303
Total				<u>\$ 14,101</u>

Staff recommended the Commission accept Staff's \$14,101 decrease to Purchased Water Expense as well as the corresponding \$14,101 increase to Contractual Services, because it reflects the correction of misclassified expenses into the correct category.⁶⁵

The Commission finds that Staff's adjustments are reasonable because the costs are allocated into categories that are consistent with the USoA and therefore should be accepted.

Purchased Water. Graves District purchases approximately 35.91 percent of its total water from the city of Mayfield (Mayfield).⁶⁶ In its application, Graves District proposed an adjustment to increase Purchased Water Expense by \$12,493⁶⁷ due to an

⁶⁴ Graves District's Response to Staff's Second Request, Item 2.

⁶⁵ Staff Report at 17.

⁶⁶ 2023 Annual Report at 54, 57.

⁶⁷ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, Adjustment E.

increase in retail water rates by Mayfield.⁶⁸ Graves District reported Mayfield increased its customer charge \$1 per month and increased the volumetric cost by 4 percent.⁶⁹

Staff agreed with Graves District's proposed methodology. However, because of the previous reclassification adjustment reclassifying two transactions, the pro forma Purchased Water Expense should be \$298,234 before the adjustment for unaccounted for water loss in excess of 15 percent. When the corrected Purchased Water Expense is used in the calculation, Staff determined an increase of \$11,941, which is \$552 less than Graves District's proposed \$12,493, as shown in the following table. Staff recommended the Commission accept Staff's revised adjustment as the amounts are known and measurable.⁷⁰

Description	Amount
<u>Customer Charge</u>	
Increase in Monthly Customer Charge	\$ 1
Multiplied by: 12 Months	12
Annual Increase Customer Charge	<u>12</u>
<u>Volumetric Rate</u>	
Corrected Test Year Purchased Water	298,234
Volumetric Percentage Increase	4.00%
Increase in per Volumetric Rate	<u>11,929</u>
Total Adjustment	11,941
Graves District's Proposed Adjustment ()	(12,493)
Difference	<u><u>\$ (552)</u></u>

⁶⁸ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, Adjustment E.

⁶⁹ Graves District's Response to Staff's First Request, Item 3, 3_GCWD_Rate_Model.xlsx, Water Rate Inc Tab.

⁷⁰ Staff Report at 18.

The Commission finds that Staff's adjustment related to Purchased Water Expense is reasonable and should be accepted because the amounts are known and measurable.

Unaccounted-For Water Loss Adjustment. In its application, Graves District proposed adjustments to decrease Purchased Water Expense by \$55,036,⁷¹ Purchased Power Expense by \$17,516,⁷² and Chemical Expense by \$24,690.⁷³ The adjustments are to reflect the expense for unaccounted water loss in excess of 15 percent.⁷⁴ During the test year, Graves District reported a water loss of 31.9432 percent.⁷⁵ As noted earlier in the report, 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included. Including the previous adjustments into the calculation of Purchased Water Expense, Staff calculated decreases of \$52,554 to Purchased Water Expense, \$17,516 to Purchased Power Expense, and \$24,690 to Chemical Expense, as shown in the following table.

Disallowed Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 310,175	\$ 103,380	\$ 145,723	\$ 559,278
Water Loss in Excess of 15%	16.9432%	16.9432%	16.9432%	16.9432%
Disallowed Water Loss	\$ 52,554	\$ 17,516	\$ 24,690	\$ 94,760

F. ⁷¹ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, Adjustment F.

F. ⁷² Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, Adjustment F.

F. ⁷³ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, Adjustment F.

⁷⁴ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, References, Adjustment F.

⁷⁵ 2023 Annual Report at 57.

Staff recommended the Commission accept Staff's \$52,554 decrease to Purchased Water Expense, \$17,516 decrease to Purchase Power Expense, and a \$24,690 decrease to Chemical Expense.⁷⁶

The Commission finds Staff's adjustments are reasonable and accepts the adjustments because they are supported by the evidence of Purchased Water, Purchased Power and Chemical Expense provided in the case record.

Materials and Supplies. Graves District reported test-year Materials and Supplies Expense of \$198,131.⁷⁷ During Staff's review of Graves District's general ledger accounts for Materials and Supplies, it also identified expenditures that may have needed to be capitalized.⁷⁸ Graves District agreed that one of the items purchased should have been capitalized,⁷⁹ the remaining purchases are for parts and tools used to repair leaks and main breaks as part of routine maintenance, or small pumps with a life of less than 18 months.⁸⁰ Accounting Instruction 27 B(1) of the USoA for Class A/B Water Systems states that the cost of retirement units added to utility plant shall be accounted for as provided in Accounting Instruction 21 of the USoA, which provides methodology for capitalization of purchased assets, including nonrecurring maintenance expenses that

⁷⁶ the Staff Report at 19.

⁷⁷ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations.

⁷⁸ Graves District's Response to Staff's First Request, Item 1a, 1.a_2023_GL_GCWD_redacted.xlsm, Account 620 – Materials & Supplies.

⁷⁹ Graves District's Response to Staff's Second Request, Item 1b.

⁸⁰ Graves District's Response to Staff's Second Request, Item 1c.

extend the useful life of an asset.⁸¹ Staff made an adjustment to decrease Materials and Supplies by \$3,627, as shown in the following table.

Date	Number	Vendor	Description	Amount
11/30/2023	NOV23MGT	Mayfield Electric & Water Systems	Chlorine Analyzer	\$ (3,627)
Total				<u>\$ (3,627)</u>

Further, Staff made an adjustment to record additional depreciation based on the asset's estimated useful life. Staff aligned the asset's useful lives with the Depreciation Practices for Small Utilities (NARUC Study), which is included as an adjustment below. This results in an increase of \$207 to Depreciation Expense, as shown in the following table.

Description	Amount
Chlorine Analyzer	\$ (3,627)
Naruc Recommended Service Life: Laboratory Equipment	17.50
Annual Depreciation Expense	<u>\$ (207)</u>

Staff recommended that the Commission accept Staff's adjustment to decrease Materials and Supplies by \$3,627, as well as an increase to Depreciation Expense of \$207, as the expenditures included were used to extend the life of an existing asset and should therefore be capitalized according to the USoA instructions for utility plant accounting.⁸²

The Commission finds that Staff's adjustments are reasonable because they are consistent with the USoA and therefore, should be accepted.

⁸¹ USoA, Accounting Instruction 27 B(1), at 33.

⁸² Staff Report at 20.

Expenses Related to Meter Installations. During the test year, Graves District installed 36 new water connections⁸³ at the current tariff rate of \$800 per connection,⁸⁴ although the district actually collected \$36,000. Graves District stated it assessed 45 tap fees during the test year, and the difference was due to a developer paying in advance for nine meter sets for a planned subdivision that is currently on hold.⁸⁵ The USoA requires that construction costs, such as tap fee expenses, be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁸⁶ Graves District stated it had already capitalized \$16,392 in Materials and Supplies Expenses during the test year,⁸⁷ so Staff's adjustment only accounts for the difference between what amount should have been capitalized and what was actually capitalized. Therefore, Staff decreased Graves District's Contractual Services and Materials and Supplies as shown in the following table.

Description	Contractual Services - Management	Materials and Supplies
Tap Fees Collected	\$ 28,800	\$ 28,800
Allocated Percentage	30%	70%
Calculated Capitalized Amount	8,640	20,160
Current Capitalized Amount ()	-	(16,392)
Adjustment	\$ 8,640	\$ 3,768

⁸³ Graves District's Response to Staff's First Request, Item 10.

⁸⁴ P.S.C. Ky. 1, Sheet No. 5, effective July 1, 2013.

⁸⁵ Graves District's Response to Staff's Second Request, Item 4.

⁸⁶ USoA, Accounting Instruction 19 and 33.

⁸⁷ Graves District's Response to Staff's First Request, Item 10c.

Staff capitalized the labor and material costs and made a corresponding adjustment to test-year depreciation as shown in the Capitalization of Water Tap Labor Adjustment.

Staff recommended the Commission accept Staff's proposed adjustments to decrease Contractual Services – Management by \$8,640 and decrease to Materials and Supplies by \$3,768 because it reflects the proper accounting for water connection expenses according to the USoA.⁸⁸

The Commission finds that Staff's adjustments are reasonable because it is consistent with the USoA and therefore, should be accepted.

Contractual Services - Management. In the application, Graves District proposed an adjustment to increase Contractual Services – Management by \$111,223⁸⁹ because Mayfield increased the contractual services agreement by 10 percent for 2025.⁹⁰

Graves District filed a copy of the 2024 revision to the contract agreement for operations, maintenance, and management services.⁹¹ Staff agreed with Graves District's proposed \$111,223 increase to Contractual Services – Management since the adjustment is based on the increase in rates in the revised management contract provided in the case record.

⁸⁸ Staff Report at 21.

⁸⁹ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, Adjustment G.

⁹⁰ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations, References, Adjustment G.

⁹¹ Graves District's Response to Staff's First Request, Item 20, 20.a_2024_Revised_Draft_GCWD_Contract_.pdf.

Staff recommended the Commission accept Graves District's proposed adjustment since it reflects the current management contract on file.⁹²

The Commission finds Graves District's adjustment is reasonable and accepts the adjustment because it is supported by contracts provided in evidence in the case record.

Miscellaneous Expense. Graves District reported test year Miscellaneous Expense of \$39,189.⁹³ During Staff's review of Graves District's general ledger accounts for Miscellaneous Expense, it identified an expenditure that needed to be removed.⁹⁴ A November 27, 2023 entry showed that Graves District incurred \$5,072 in expenses as a reimbursement for a subdivision contract. Based on the explanation for the difference in tap-fees,⁹⁵ the record supports a conclusion that this amount represents repayment to a contractor for tap fees paid in advance for a project that was later put on hold and therefore never actually installed. The reimbursement should have been recorded as a reduction to tap fee income (contributions to capital according to the USoA) and are not a component of operating expenses. Therefore, Staff decreased Miscellaneous Expense by \$5,072, to account for the incorrect treatment of the reimbursement.

Staff recommended the Commission accept Staff's decrease to Miscellaneous Expense since the reimbursement should not be reported as an operational expense and therefore, should be removed from the test year.⁹⁶

⁹² Staff Report at 22.

⁹³ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations.

⁹⁴ Graves District's Response to Staff's First Request, Item 1a, 1.a_2023_GL_GCWD_redacted.xlsm, Account 675 – Miscellaneous Expense.

⁹⁵ Graves District's Response to Staff's Second Request, Item 4.

⁹⁶ Staff Report at 23.

The Commission finds that Staff's adjustment is reasonable because it is consistent with the USoA and therefore, should be accepted.

Capitalization of Water Tap Labor. As discussed in the Expenses Related to Meter Installations, adjustment above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. Therefore, Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$310 to account for the Tap Fee labor and the uncapitalized materials as shown below:

Description	Contractual Services - Management	Materials and Supplies
Test Year Water Connections Expense	\$ 8,640	\$ 3,768
Divided by: Recommended Useful Life	40	40
Capitalized Expenses	<u>\$ 216</u>	<u>94</u>
Total Depreciation Adjustment		<u>\$ 310</u>

Staff recommended the Commission accept Staff's \$310 increase to Depreciation Expense, because the USoA requires the assets to be depreciated over their estimated useful lives.⁹⁷

The Commission finds that Staff's adjustments are reasonable because they are consistent with the USoA and therefore, should be accepted.

Taxes Other Than Income – Federal Insurance Contribution Act (FICA). During the test year, Graves District recorded Taxes other than Income of \$5,249.⁹⁸ As explained in Salaries and Wages – Officers adjustment above, Staff calculated Graves District's

⁹⁷ Staff Report at 24.

⁹⁸ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations.

total Salaries and Wages – Officers of \$42,000.⁹⁹ Therefore, Staff calculated an increase of \$1,333 to Taxes Other Than Income, as shown in the following table.

Description	Amount
Salaries and Wages - Officers	\$ 42,000
Times: 7.65 Percent FICA Rate	7.65%
Pro Forma Payroll Taxes	3,213
Utility Reg Assessment Fees	2,869
Reg Commission Expense Other	500
Pro Forma	6,582
Test Year ()	(5,249)
Staff's Adjustment	<u>\$ 1,333</u>

Staff recommended the Commission approve Staff's adjustment to increase Taxes Other than Income by \$1,333, because it is a known and measurable change that is a direct result of changes to Salaries and Wages – Officers.¹⁰⁰

The Commission finds that Staff's adjustment related to Taxes Other Than Income is reasonable because of the evidence provided in the case record, and it should be accepted because the amounts are known and measurable.

OVERALL REVENUE REQUIREMENT

In the application, Graves District proposed to calculate the revenue requirement using the Operating Ratio (OR) methodology.¹⁰¹ The Operating Ratio methodology is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-

⁹⁹ Application, Attachment 4, ARF_Application.pdf, Schedule of Adjusted Operations.

¹⁰⁰ Staff Report at 25.

¹⁰¹ Application, Attachment 4, ARF_Application.pdf, Revenue Requirements Table.

term debt.¹⁰² The Operating Ratio is a method to provide the utility with the necessary working capital to operate effectively. Staff has historically used an Operating Ratio of 88 percent to calculate the additional working capital.

Graves District currently has three outstanding debts, which are an additional 4.87 percent of operating expenses in 2025.¹⁰³ Two of the loans mature in 2026,¹⁰⁴ which results in a reduction to only an additional 1.94 percent of operating expenses by 2027. If the Commission used the Debt Service Recovery method, Graves District would recover \$72,263 for the Debt Service and Additional Working Capital, as shown in the following table.

Description	Amount
Average Annual Principal and Interest Payments	\$60,219
Additional Working Capital at 20%	12,044
Total Additional Working Capital	<u>\$72,263</u>

In contrast, the OR method provides \$338,009 in additional working capital. Staff stated that, due to Graves District's low debt service requirement, a rate increase using the debt service coverage method would not provide Graves District with sufficient working capital to operate effectively to provide adequate, efficient, and reasonable

¹⁰² Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

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

¹⁰³ Graves District's 2023 Audit Report, Note 9 at 15.

¹⁰⁴ Graves District's 2023 Audit Report, Note 9 at 15.

service.¹⁰⁵ Therefore, Staff agreed with Graves District's proposal to use the Operating Ratio method to calculate its revenue requirement.

By applying the Operating Ratio method, Staff found Graves District's Revenue Requirement from Rates for Service to be \$2,757,885.¹⁰⁶ Because of the nonrecurring charge change and resulting revenue adjustment, the Commission finds the revenue requirement should be reduced to \$2,724,516 as shown in the chart below. This results in a required revenue increase of \$847,543, or 45.15 percent, to generate the Overall Revenue Requirement of \$2,831,065.

Description	Graves District	Commission Staff	Commission Approved
Pro Forma Operating Expenses	\$ 2,483,308	\$ 2,485,756	\$ 2,485,756
Operating Ratio	88%	88%	88%
Subtotal	2,821,941	2,824,723	2,824,723
Average Annual Principal and Interest Payments	6,312	6,342	6,342
Total Revenue Requirement	2,828,253	2,831,065	2,831,065
Forfeited Discounts ()	(622)	(31,069)	(31,069)
Misc. Service Revenues ()	(104,961)	(25,082)	(58,451)
Rents From Water Property ()	(1,400)	(1,400)	(1,400)
Other Revenue ()	(707)	(375)	(375)
Interest Income ()	(15,172)	(15,254)	(15,254)
Revenue Required From Water Rates	2,705,391	2,757,885	2,724,516
Normalized Revenues From Water Sales ()	(1,876,973)	(1,876,973)	(1,876,973)
Required Revenue Increase	\$ 828,418	\$ 880,912	\$ 847,543
Percentage Increase	44.14%	46.93%	45.15%

Average Annual Interest and Fees Payments. As discussed above, at the time of Staff's review, Graves District had three outstanding Kentucky Infrastructure Authority (KIA) loans. Graves District provided the amortization schedules for its outstanding

¹⁰⁵ the Staff Report at 26.

¹⁰⁶ the Staff Report at 26.

debt.¹⁰⁷ Using the amortization tables, Staff calculated the average annual interest on a five-year average for the years 2026 through 2030. Staff calculated an average Interest and Fees expense of \$6,342 as shown in the following table.

Year	KIA B11-02		KIA B07-03		KIA B05-04		Total
	Interest	Service Fees	Interest	Service Fees	Interest	Service Fees	
2026	\$ 6,790	\$ 679	\$ 258	\$ 129	\$ 1,006	\$ 418	\$ 9,280
2027	5,971	597	52	26	467	195	7,308
2028	6,137	513	-	-	-	-	6,650
2029	4,285	428	-	-	-	-	4,713
2030	3,416	342	-	-	-	-	3,758
Total	\$26,599	\$ 2,559	\$ 310	\$ 155	\$ 1,473	\$ 613	31,709
5 Year Average							<u>\$ 6,342</u>

Staff recommended the Commission approve Staff's proposed inclusion of \$6,342 to the revenue requirement to account for the average annual interest payments, because the OR methodology allows for the recovery of interest payments.

The Commission finds that using the OR method is appropriate and that including \$6,342 in the revenue requirement calculation for average interest and fee payments for debt obligations is a known and measurable amount.

RATE DESIGN

In its application, Graves District proposed to increase its monthly water service rates by 44.14 percent to all its water customers across the board and requested that the rates be implemented over a five-year phase-in increase period, given the size of the required rate increase.¹⁰⁸ Graves District proposed phase-in increases of approximately 20.00 percent in Phase 1, 5.01 percent in Phase 2, 4.77 percent in Phase 3, 4.55 percent

¹⁰⁷ Application, Attachment 9, ARF_Application.pdf.

¹⁰⁸ Application, Corrected Customer Notice (filed Mar. 17, 2025).

in Phase 4, and 4.18 percent in Phase 5.¹⁰⁹ Graves District stated that it did not file a COSS at this time, considering there have been no material changes in the water system that would cause a new COSS to be prepared.¹¹⁰ The Commission has previously found that the allocation of a revenue adjustment 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.¹¹¹ Finding no such evidence in this case of unreasonableness, the Commission allocated the revised \$847,543 revenue increase evenly across Graves District's monthly retail water service rates over a two-year phase-in period. The Commission agrees with implementing a phase-in approach in this case due to the large increase, but it does not believe a five-year phase-in is appropriate. While both Graves District and its customers have faced challenges subsequent to the December 2021 tornado,¹¹² the Commission does not believe a five-year phase-in would fully fund Graves District's Depreciation Expense¹¹³ nor would it restore Graves District to sound financial condition.¹¹⁴

The rates, as calculated by the Commission, which are set forth in Appendix B 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

¹⁰⁹ Graves District's Response to Staff's Second Request, Item 6.

¹¹⁰ Graves District's Response to Staff's First Request, Item 12.

¹¹¹ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

¹¹² <https://www.weather.gov/pah/December-10th-11th-2021-Tornado>

¹¹³ Graves District's Response to Staff's Second Request, Item 6.

¹¹⁴ Application, Attachment #2, at 17.

\$2,724,516 revenue required from rates, an approximate 45.15 percent increase across two phases. Phase 1 rates will increase the monthly water bill for a typical residential customer using approximately 2,179 gallons per month¹¹⁵ from \$16.53 to \$20.26 for an increase of \$3.73, or approximately 22.57 percent. Phase 2 rates will increase the monthly water bill for a typical residential customer from \$20.26 to \$24.00 for an increase of \$3.74, or approximately 18.46 percent. The overall impact increases a typical bill from \$16.53 to \$24.00 for an increase of \$7.47 or 45.19 percent.

Nonrecurring Charges. Following the Commission's recent decisions, Staff reviewed Graves District's Nonrecurring Charges. The Commission has found that because expenses for district personnel are during normal business hours are recovered in base rates, the same expenses previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges.¹¹⁶ Graves District provided updated cost justification information for the Nonrecurring Charges¹¹⁷ as well as a list of the number of occurrences for each of its Nonrecurring Charges.¹¹⁸ Staff reviewed the cost justification information provided by Graves District and adjusted these charges by removing the Field Labor Costs and the Office/Clerical Labor Costs from those charges

¹¹⁵ Application, Corrected Customer Notice (the average retail customer uses 2,179 gallons per month).

¹¹⁶ 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).

¹¹⁷ Graves District's Response to Staff's First Request, Item 17, 17_Non-Recurring_Cost_Justification_Sheets.

¹¹⁸ Graves District's Response to Staff's First Request, Item 16, 16_2023_NON-RECURRING_CHARGES.

that occurred during normal business hours.¹¹⁹ Staff also removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal business hours and there was no evidence of record that indicated these staff hours occurred outside of normal business hours.¹²⁰

Moreover, Staff recommended that the Commission require Graves District to remove the Returned Check Charge from Graves District's current tariff, considering the revised charge has been reduced to zero. The Tampering Fee increased \$10, from \$50 to \$60. Staff noted the increase is due to the rising costs of transportation and other Miscellaneous Expenses, as shown in the cost justification provided.¹²¹

Staff recommended that the Commission accept the revised Nonrecurring Charge amounts, as these were supported by Graves District's cost justification sheets, and the amounts meet the ratemaking criteria of being known and measurable.¹²² The cost justification information, shown in Appendix A, was provided by Graves District.

As discussed in the modification section above, Graves District requested inclusion of normal business hour labor fees in its Nonrecurring Charges because they were contractor-billed hours that are marginal costs directly caused by the service and should remain recoverable.¹²³ The Commission agrees with Graves District's argument for their

¹¹⁹ the Staff Report at 7.

¹²⁰ the Staff Report at 7.

¹²¹ Graves District's Response to Staff's First Request, Item 17, 17_Non-Recurring_Cost_Justification_Sheets at 8.

¹²² Graves District's Response to Staff's First Request, Item 17, 17_Non-Recurring_Cost_Justification_Sheets.

¹²³ Response to the Staff Report at 10-11.

inclusion and revised the Nonrecurring Charges to include labor costs. The adjustments discussed above result in the following revised Nonrecurring Charges:

Nonrecurring Charges	Current Charge	Revised Charge
Connection Charge	\$ 25.00	\$ 50.00
Reconnection Charge	\$ 25.00	\$ 45.00
Returned Check Charge	\$ 25.00	\$ 25.00
Service Charge	\$ 25.00	\$ 35.00
After Hours Service Charge	\$ 100.00	\$ 100.00
Late Payment Notice Charge	\$ 2.00	\$ 2.00
Tampering Fee	\$ 50.00	\$ 95.00
Pressure Reducing Fee	\$ 300.00	\$ 300.00

Graves District provided an updated cost justification for its 5/8-Inch x 3/4-Inch Meter and 1-Inch Meter Set/Tap On Fee.¹²⁴ Graves District also proposed to add a new 2-Inch Meter Set/Tap On Fee to its tariff; however, Staff noted Graves District did not provide notice of the newly proposed Meter Set/Tap On Fees to its customers.¹²⁵ Staff reviewed the cost justification information provided by Graves District and noted it supported an increase in the 5/8-Inch x 3/4-Inch Meter and 1-Inch Meter Set/Tap On Fee, and, notwithstanding the issue with appropriate notice, Staff also agreed with the justification for the new 2-Inch Meter Set/Tap On Fee. Staff recommended that the Commission accept Graves District's supported increase for both Tap On Fees from \$800 to \$2,164 for the 5/8-Inch x 3/4-Inch Meter Set/Tap On Fee and from \$800 to \$2,467 for the 1-Inch Meter Set/Tap On Fee, as these values represent the actual costs associated

¹²⁴ Graves District's Response to Staff's First Request, Item 18, 18_Tap-Fees_Cost_Justification_Sheets.

¹²⁵ Staff Report at 9.

with performing this service.¹²⁶ Staff also recommended that the Commission accept Graves District's newly proposed 2-Inch Meter Set/Tap On Fee at \$4,520, as this amount represents the actual cost of the service being performed.¹²⁷ Staff also recommended that, if the new Meter Set/Tap On Fees were approved, the Commission order Graves District to issue notice to inform all customers of the revised fees.¹²⁸

The Commission finds that Staff's recommendations are reasonable to reflect the current expenses incurred to install new taps, in order to prevent an under-recovery for both tap fees. Increasing the tap fee rates in line with Graves District's actual cost will result in a fair, just or reasonable rate. In addition, over time, under-recovery of a particular charge will result in degradation of the utility's financial condition. As noted above, Graves District did not provide proper notice required to comply with 807 KAR 5:011. When Graves District files its revised tariffs in compliance with this Order, the effective date of the revised Meter Set/Tap On Fees shall not be valid until proper notice is provided in accordance with 807 KAR 5:011.

Water Loss Surcharge. Graves District currently charges a water loss reduction surcharge of \$5.00 per customer per month, authorized in Case No. 2018-00429.¹²⁹ It was authorized to assess a monthly surcharge of \$5 per customer for service rendered on and after October 1, 2019, and continuing for 72 months or until the total amount of the surcharge assessed equals \$1,721,600, whichever occurs first.¹³⁰ Based on the

¹²⁶ Staff Report at 9.

¹²⁷ Staff Report at 9.

¹²⁸ Staff Report at 10.

¹²⁹ Case No. 2018-00429, Sept. 30, 2019 Order.

¹³⁰ Case No. 2018-00429, Sept. 30, 2019 Order at 12, ordering paragraph 9.

surcharge reporting provided in Case No. 2018-00429, Staff expected the last month that Graves District would bill the surcharge would be September 2025, as the surcharge assessed was expected to exceed \$1,721,600 at that point.¹³¹ October 2025 would be the last month Graves District could assess its surcharge according to the 72-month limit. As of September 2024, the district had produced \$1,427,550 in revenue.¹³² During the same period Graves District expended \$1,282,290 of surcharge proceeds, or approximately 89.82 percent of collected surcharge proceeds.¹³³ Graves District has seen a small reduction in water loss from the implementation of the surcharge in 2019 to 2023, with water loss of 34.1277 percent in 2019¹³⁴ and water loss of 31.9432 percent in 2023.¹³⁵ Graves District's unpublished 2024 Annual Report reported water loss of 31.1200 percent in 2024.¹³⁶

The Commission finds the continuation request in this docket should instead be reviewed in Case No. 2019-00347,¹³⁷ which is the ongoing surcharge monitoring docket established for this purpose. That docket was opened by the Commission to monitor surcharge collections and expenditures and to conduct annual reviews to evaluate

¹³¹ Case No. 2019-00347, *Electronic Graves County Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge, and Monitoring*, monthly surcharge reports.

¹³² Case No. 2019-00347, Graves District's 2025 Annual Progress Report (filed April 22, 2025) at 6.

¹³³ Case No. 2019-00347, Graves District's 2025 Annual Progress Report (filed April 22, 2025), Table 3 at 9.

¹³⁴ *Annual Report of Graves County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 57.

¹³⁵ 2023 Annual Report at 57.

¹³⁶ 2024 Annual Report at 57.

¹³⁷ Case No. 2019-00347, *Electronic Graves County Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge, And Monitoring*.

whether adjustments to the program or surcharge are needed. Surcharge-administration motions (including extensions of time and reporting changes) have consistently been handled there. Proceeding in Case No. 2019-00347 avoids delaying the final Order in this case. Therefore, the Commission finds Graves District's request for a surcharge extension is denied in this case and a continuation/extension motion should be filed in Case No. 2019-00347. Although the Commission is directing Graves District to file the surcharge request in the monitoring case, this is not a guarantee that the Commission will ultimately approve an extension.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Staff Report, are supported by the evidence of record and are reasonable. Applying the OR method to Graves District's pro forma operations results in an Overall Revenue Requirement of \$2,831,065 and indicates a \$847,543 revenue increase, or 45.15 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 Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Graves District are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Graves District on or after the date of this Order.
4. Within 20 days of the date of service of this Order, Graves District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff

sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

5. Graves District shall file proper notice in accordance with 807 KAR 5:011 for the revised Meter Set/Tap On Fees approved in this case. Graves District shall not charge the revised Meter Set/Tap On Fees until such time notice is given.

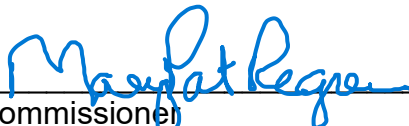
6. The proposed extension of Graves District's water loss surcharge is denied. The continuation request in this docket may be refiled by Graves District in Case No. 2019-00347.

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

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

J

ATTEST:


Executive Director

AP



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00060 DATED DEC 23 2025

* Denotes Rounding

Nonrecurring Charges Adjustments

Connection Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor (1/2 hr at \$50/hr)	\$ 25.00	\$ 25.00	
Office Supplies	\$ 2.00	\$ 2.00	
Office Labor (1/2 hr)	\$ 12.50	\$ 12.50	
Transportation	\$ 10.00	\$ 10.00	
Misc.	\$ -	\$ -	
Total Revised Charge*	<u>\$ 49.50</u>	<u>\$ 50.00</u>	
Current Rate	\$ 25.00		
Reconnection Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor (1/2 hr at \$50/hr)	\$ 25.00	\$ 25.00	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 10.00	\$ 10.00	
Transportation	\$ 10.00	\$ 10.00	
Misc.	\$ -	\$ -	
Total Revised Charge*	<u>\$ 45.00</u>	<u>\$ 45.00</u>	
Current Rate	\$ 25.00		
Returned Check Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ -	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 25.00	\$ 25.00	
Transportation	\$ -	\$ -	
Misc.	\$ -	\$ -	
Total Revised Charge*	<u>\$ 25.00</u>	<u>\$ 25.00</u>	
Current Rate	\$ 25.00		

Service Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor (1/2 hr)	\$ 25.00	\$ 25.00	
Office Supplies	\$ -	\$ -	
Office Labor	\$ -	\$ -	
Transportation	\$ 10.00	\$ 10.00	
Misc.	\$ -	\$ -	
Total Revised Charge*	<u>\$ 35.00</u>	<u>\$ 35.00</u>	
Current Rate	\$25.00		

After Hours Service Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor (OT at \$70/hr)	\$ 70.00	\$ 70.00	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 20.00	\$ 20.00	
Transportation	\$ 10.00	\$ 10.00	
Misc.	\$ -	\$ -	
Total Revised Charge*	<u>\$ 100.00</u>	<u>\$ 100.00</u>	
Current Rate	\$ 100.00		

Late Payment Notice Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ -	\$ -	
Office Supplies	\$ 0.73	\$ 0.73	
Office Labor	\$ -	\$ -	
Transportation	\$ -	\$ -	
Misc.	\$ 1.27	\$ 1.27	
Total Revised Charge*	<u>\$ 2.00</u>	<u>\$ 2.00</u>	
Current Rate	\$ 2.00		

Tampering Fee			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor (1/2 hr)	\$ 25.00	\$ 25.00	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 10.00	\$ 10.00	
Transportation	\$ 10.00	\$ 10.00	
Misc.	\$ 50.00	\$ 50.00	
Total Revised Charge*	<u>\$ 95.00</u>	<u>\$ 95.00</u>	
Current Rate	\$ 50.00		

Pressure Reducing Fee			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor (2 hrs at \$50/hr)	\$ 100.00	\$ 100.00	
Office Supplies	\$ -	\$ -	
Office Labor	\$ -	\$ -	
Transportation	\$ 25.00	\$ 25.00	
Misc.	\$ 175.00	\$ 175.00	
Total Revised Charge*	<u>\$ 300.00</u>	<u>\$ 300.00</u>	
Current Rate	\$ 300.00		
5/8-Inch x 3/4-Inch Meter Set/Tap On Fee			
	Utility Revised Charge	Staff Revised Charge	
Materials Expense	\$ 1,066.70	\$ 1,066.70	
Service Pipe Expense	\$ 172.13	\$ 172.13	
Installation Labor Expense	\$ 525.00	\$ 525.00	
Installation Equipment Expense	\$ 200.00	\$ 200.00	
Installation Miscellaneous Expense	\$ 150.00	\$ 150.00	
Overhead Expense	\$ -	\$ -	
Administrative Expense	\$ 50.00	\$ 50.00	
Total Revised Charge*	<u>\$ 2,163.83</u>	<u>\$ 2,164.00</u>	
Current Rate	\$ 800.00		
1-Inch Meter Set/Tap On Fee			
	Utility Revised Charge	Staff Revised Charge	
Materials Expense	\$ 1,214.44	\$ 1,214.44	
Service Pipe Expense	\$ 202.50	\$ 202.50	
Installation Labor Expense	\$ 650.00	\$ 650.00	
Installation Equipment Expense	\$ 200.00	\$ 200.00	
Installation Miscellaneous Expense	\$ 150.00	\$ 150.00	
Overhead Expense	\$ -	\$ -	
Administrative Expense	\$ 50.00	\$ 50.00	
Total Revised Charge*	<u>\$ 2,466.94</u>	<u>\$ 2,467.00</u>	
Current Rate	\$ 800.00		
2-Inch Meter Set/Tap On Fee			
	Utility Revised Charge	Staff Revised Charge	
Materials Expense	\$ 2,401.70	\$ 2,401.70	
Service Pipe Expense	\$ 243.00	\$ 243.00	
Installation Labor Expense	\$ 900.00	\$ 900.00	
Installation Equipment Expense	\$ 275.00	\$ 275.00	
Installation Miscellaneous Expense	\$ 650.00	\$ 650.00	
Overhead Expense	\$ -	\$ -	
Administrative Expense	\$ 50.00	\$ 50.00	
Total Revised Charge*	<u>\$ 4,519.70</u>	<u>\$ 4,520.00</u>	
Current Rate	Actual Cost		

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00060 DATED DEC 23 2025

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

Monthly Water Rates Phase 1

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

First	2,000	Gallons	\$ 18.94	Min. Bill
Next	8,000	Gallons	\$ 0.00739	per Gallon
Next	10,000	Gallons	\$ 0.00662	per Gallon
Next	30,000	Gallons	\$ 0.00585	per Gallon
Over	50,000	Gallons	\$ 0.00507	per Gallon

1-Inch Meter

First	5,000	Gallons	\$ 41.10	Min. Bill
Next	5,000	Gallons	\$ 0.00739	per Gallon
Next	10,000	Gallons	\$ 0.00662	per Gallon
Next	30,000	Gallons	\$ 0.00585	per Gallon
Over	50,000	Gallons	\$ 0.00507	per Gallon

1 1/2-Inch Meter

First	7,500	Gallons	\$ 59.60	Min. Bill
Next	2,500	Gallons	\$ 0.00739	per Gallon
Next	10,000	Gallons	\$ 0.00662	per Gallon
Next	30,000	Gallons	\$ 0.00585	per Gallon
Over	50,000	Gallons	\$ 0.00507	per Gallon

2-Inch Meter

First	20,000	Gallons	\$ 144.25	Min. Bill
Next	30,000	Gallons	\$ 0.00585	per Gallon
Over	50,000	Gallons	\$ 0.00507	per Gallon

3-Inch Meter

First	30,000	Gallons	\$ 202.72	Min. Bill
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Next	20,000	Gallons	\$ 0.00585	per Gallon
Over	50,000	Gallons	\$ 0.00507	per Gallon
4-Inch Meter				
First	50,000	Gallons	\$ 319.75	Min. Bill
Over	50,000	Gallons	\$ 0.00507	per Gallon
Wholesale			\$ 0.00376	per Gallon

Monthly Water Rates Phase 2

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

First	2,000	Gallons	\$ 22.44	Min. Bill
Next	8,000	Gallons	\$ 0.00875	per Gallon
Next	10,000	Gallons	\$ 0.00784	per Gallon
Next	30,000	Gallons	\$ 0.00692	per Gallon
Over	50,000	Gallons	\$ 0.00601	per Gallon

1-Inch Meter

First	5,000	Gallons	\$ 48.67	Min. Bill
Next	5,000	Gallons	\$ 0.00875	per Gallon
Next	10,000	Gallons	\$ 0.00784	per Gallon
Next	30,000	Gallons	\$ 0.00692	per Gallon
Over	50,000	Gallons	\$ 0.00601	per Gallon

1 1/2-Inch Meter

First	7,500	Gallons	\$ 70.57	Min. Bill
Next	2,500	Gallons	\$ 0.00875	per Gallon
Next	10,000	Gallons	\$ 0.00784	per Gallon
Next	30,000	Gallons	\$ 0.00692	per Gallon
Over	50,000	Gallons	\$ 0.00601	per Gallon

2-Inch Meter

First	20,000	Gallons	\$ 170.81	Min. Bill
Next	30,000	Gallons	\$ 0.00692	per Gallon
Over	50,000	Gallons	\$ 0.00601	per Gallon

3-Inch Meter

First	30,000	Gallons	\$ 240.05	Min. Bill
Next	20,000	Gallons	\$ 0.00692	per Gallon
Over	50,000	Gallons	\$ 0.00601	per Gallon

4-Inch Meter

First	50,000	Gallons	\$	378.62	Min. Bill
Over	50,000	Gallons	\$	0.00601	per Gallon

Wholesale			\$	0.00446	per Gallon
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Nonrecurring Charges	Revised Charge
Connection Charge	\$ 50.00
Reconnection Charge	\$ 45.00
Returned Check Charge	\$ 25.00
Service Charge	\$ 35.00
After Hours Service Charge	\$ 100.00
Late Payment Notice Charge	\$ 2.00
Tampering Fee	\$ 95.00
Pressure Reducing Fee	\$ 300.00

Meter Set/Tap On Fees

5/8-Inch x 3/4-Inch Meter	\$ 2,164.00
1-Inch Meter	\$ 2,467.00
2-Inch Meter	\$ 4,520.00

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