

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF NORTH MCLEAN)	2025-00376
COUNTY WATER DISTRICT)	

O R D E R

On December 16, 2025, North McLean County Water District (North McLean District) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.015 and 807 KAR 5:068.

LEGAL STANDARD

In accordance with KRS 278.015, when a wholesale supplier selling water to a water district increases its rates, the water district has the authority to increase its rate commensurate with the wholesale supplier. The water district must file, within the statutory and regulatory deadlines, a copy of the notice from the wholesale supplier showing the increase in the wholesale rate, and a statement of the volume of purchased water used to calculate the rate adjustment. The Commission shall approve the filing by order after the above documents are filed.

DISCUSSION AND FINDINGS

North McLean District purchases water from McLean County Regional Water Commission (McLean Regional Commission), Daviess County Water District (Daviess District) and Ohio County Water District (Ohio District).¹ McLean Regional Commission

¹ Application (filed Dec. 16, 2025) at 1.

notified North McLean District that its wholesale rate would increase by \$0.15 per 1,000 gallons from \$3.92 per 1,000 gallons to \$4.07 per 1,000 gallons, effective January 1, 2026.² North McLean District proposes to increase the water rates to its customers effective January 1, 2026, to reflect the increased cost of purchased water from McLean Regional Commission.³ Daviess District and Ohio District did not propose any rate changes.

Unaccounted-for Water Loss

Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. In its 2022 Annual Report filed with the Commission, North McLean District reported a water loss of 20.3753 percent.⁴ In its 2023 Annual Report filed with the Commission, North McLean District reported a water loss of 22.9134 percent.⁵ In its 2024 Annual Report filed with the Commission, North McLean District reported a water loss of 24.1139 percent.⁶ North McLean District's three-year water loss average is

² Application, Exhibit A.

³ Application at 2.

⁴ *Annual Report of North McLean District to the Public Service Commission for the Year Ended December 31, 2022* at 58.

⁵ *Annual Report of North McLean District to the Public Service Commission for the Year Ended December 31, 2023* at 57.

⁶ *Annual Report of North McLean District to the Public Service Commission for the Year Ended December 31, 2024* at 58.

22.4675 percent.⁷ The cost of North McLean District's total water loss using a three-year average is \$111,362.79.⁸

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

Financial Condition and Rates

Based on a review of Commission records, North McLean District's alternative rate adjustment pursuant to 807 KAR 5:076 was accepted for filing on June 17, 2025.⁹ The final Order in North McLean District's most recent rate case, issued January 14, 2026, did not order an adjustment of rates.¹⁰

In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.¹¹ A key recommendation from that proceeding was

⁷ $20.3753\% + 22.9134\% + 24.1139\% = 67.4026 / 3 \text{ years} = 22.4675\%.$

⁸ Total water cost at new wholesale rate of \$495,661.69 times 22.4675% water loss equals \$111,362.79.

⁹ Case No. 2025-00009, *Electronic Application of North McLean County Water District for an Alternative Rate Filing Adjustment* (filed June 17, 2025).

¹⁰ Case No. 2025-00009, Jan. 14, 2025 final Order.

¹¹ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.¹²

Based upon a review of the annual and audit reports filed with the Commission, North McLean District's rate-based income, or adjusted net income minus principal payments, was negative in 2020 and 2024, while positive in 2021, 2022, and 2023. Cash basis income, or rate-based income plus depreciation, was positive in all years. A chart summarizing rate-based and cash basis income is presented below.

Description / Year	Audited 2020	Audited 2021	Audited 2022	Audited 2023	Audited 2024
<i>Adjusted Net Income</i>					
Net Income / (Loss)	\$ (43,397)	\$ 74,729	\$ 43,636	\$ 30,675	\$ (11,452)
Other Non-recurring Items ()	0	4,474	(6,000)	0	0
Adjusted Net Income / (Loss)	\$ (43,397)	\$ 79,203	\$ 37,636	\$ 30,675	\$ (11,452)
Subtract: Principal Payments ()	(9,422)	(7,126)	(9,679)	(10,419)	(5,321)
Rate Based Income	\$ (52,819)	\$ 72,077	\$ 27,957	\$ 20,256	\$ (16,773)
Add: Depreciation Expense	74,528	75,192	76,289	83,845	85,836
Cash Basis Income	\$ 21,709	\$ 147,269	\$ 104,246	\$ 104,101	\$ 69,063
Cash Basis Income as Percent of Depreciation	29%	196%	137%	124%	80%
Capital Spending	\$ 20,760	\$ 16,235	\$ 57,362	\$ 72,651	\$ 51,173
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 351,602	\$ 488,191	\$ 595,085	\$ 634,739	\$ 654,850
Restricted Funds	55,757	53,152	54,917	57,102	58,157
Adjusted Cash Balances	407,359	541,343	650,002	691,841	713,007
Net Increase (Decrease) in Cash	\$ 2,767	\$ 133,984	\$ 108,659	\$ 41,839	\$ 21,166
<i>Selected Statistical Information (PSC Annual Reports)</i>					
Customer Count	1,315	1,312	1,311	1,327	1,311
Gallons Purchased	114,986	119,760	128,685	126,690	135,009
Gallons Sold	95,941	99,696	102,328	97,570	102,359
Gallons Used for Internal Use	22	258	137	91	58
Water Loss Gallons	19,023	19,806	26,220	29,029	32,556
System Use Percentage	0.02%	0.22%	0.11%	0.07%	0.04%
Water Loss Percentage	16.5438%	16.5381%	20.3753%	22.9134%	24.1139%
Gallons Sold Per Customer Per Month	6,080	6,332	6,504	6,127	6,506
Revenues from the Sale of Water	\$ 731,601	\$ 958,119	\$ 1,039,503	\$ 1,000,720	\$ 1,047,597
Purchased Water Expense	328,148	425,163	496,418	481,258	510,460
Purchased Water Expense Over 15% Water Loss	5,066	6,539	26,684	38,084	46,523
Water Loss Expense Over 15% as Percentage of Water Revenue	0.69%	0.68%	2.57%	3.81%	4.44%

¹² See Case No. 2019-00041, Nov. 22, 2019 final Order.

As noted above, a final Order was recently issued in North McLean District most recent rate case, Case No. 2025-00009, nonetheless the district should continue to monitor its operating performance annually to determine whether a rate adjustment application should be submitted. Future rate cases should be filed at least every three to five years depending on financial performance.

Purchased Water Adjustment Factor

In its application, North McLean District proposed a purchased water adjustment factor of \$0.17 per 1,000 gallons.¹³ During the 12 months ended October 31, 2025, North McLean District purchased 116,897,000 gallons of water from McLean Regional Commission, 4,770,000 gallons of water from Daviess District, and zero gallons from Ohio District.¹⁴ North McLean District sold 102,944,455 gallons of water to its customers.¹⁵ The increase in the cost of purchased water from McLean Regional Commission is \$17,534.55, resulting in a purchased water adjustment factor of \$0.17 per 1,000 gallons. No rate changes occurred from Daviess District or Ohio District.

The Commission finds that the purchased water adjustment factor of \$0.17 per 1,000 gallons, as calculated in Appendix A and the rates as set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by North McLean District on and after January 1, 2026, because the rates are supported by evidence of the increase in rates from North McLean District's wholesale water supplier

¹³ Application at 2.

¹⁴ Application at 2.

¹⁵ Application at 2.

and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.17 per 1,000 gallons is approved.
2. The rates proposed by North McLean District are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by North McLean District on and after January 1, 2026.
4. Within 20 days of the date of service of this Order, North McLean District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

ATTEST:

Linda Bridwell *RP*
Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00376 DATED JAN 14 2026

	Base Rate	New Rate	Change
<u>McLean Regional Commission</u>			
Purchases in Gallons	116,897,000	116,897,000	
Rate per 1,000 Gallons	<u>\$3.92/1,000</u>	<u>\$4.07/1,000</u>	
Subtotal	\$458,236.24	\$475,770.79	\$17,534.55
<u>Daviess District</u>			
Purchases in Gallons	4,770,000	4,770,000	
Rate per 1,000 Gallons	<u>\$4.17/1,000</u>	<u>\$4.17/1,000</u>	
Sub-total	\$24,042.14	\$24,042.14	no change
<u>Ohio District</u>			
Purchases in Gallons	0	0	
Rate per 1,000 Gallons	<u>\$3.29/1,000</u>	<u>\$3.29/1,000</u>	
Sub-total	\$0.00	\$0.00	no change
Total	\$482,278.38	\$499,812.93	
Increased water cost			\$17,534.55
Increased water cost		\$17,534.55	
Divided by Gallons sold/1,000		<u>102,944,455</u>	
Purchased water adjustment factor		\$0.1703	per 1,000 Gallons
			or \$0.00017 per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00376 DATED JAN 14 2026

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

Monthly Water Rates

First	2,000 Gallons	25.03	Minimum Bill
Next	8,000 Gallons	0.00957	Per Gallon
Next	30,000 Gallons	0.00885	Per Gallon
Over	40,000 Gallons	0.00816	Per Gallon

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