

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CUMBERLAND)	
COUNTY WATER DISTRICT FOR AN)	CASE NO.
ADJUSTMENT OF RATES PURSUANT TO 807)	2025-00226
KAR 5:076)	

ORDER

On June 26, 2025,¹ Cumberland County Water District (Cumberland 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 Cumberland District used the calendar year ended December 31, 2024, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2025-00072³ that required Cumberland District to file an application for an adjustment of its base rates by August 31, 2026. Cumberland District's last base rate increase, filed pursuant to the alternative rate filing procedure, was in Case No. 2022-00291.⁴ Since

¹ Cumberland District tendered its application on June 26, 2025. By letter dated July 2, 2025, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on June 26, 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. 2025-00072, *Electronic Purchased Water Adjustment Filing of Cumberland County Water District* (Ky. PSC Apr. 14, 2025), final Order at 5, ordering paragraph 5.

⁴ See Case No. 2022-00291, *Electronic Application of Cumberland County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*.

that matter, Cumberland District has only adjusted its rates pursuant to purchased water adjustments.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated July 17, 2025,⁵ as amended by Order dated October 20, 2025.⁶ Cumberland District timely responded to three requests for information⁷ and filed an amended response on October 2, 2025.

In its application, Cumberland District requested a total revenue requirement of \$2,496,814 to increase its annual water sales revenue by \$481,753 or 24.61 percent.⁸ Commission Staff (Staff) noted that Cumberland District excluded the Bad Debt Expense, generally arising from uncollectable customer bills, from its calculation of total Operating Expenses in the amount \$24,501.⁹ The Commission finds that the inclusion of Bad Debt Expense in Operating Expense is proper as set forth in the Uniform System of Accounts (USoA).¹⁰ Including Bad Debt Expense Cumberland District's Total Operating Expenses would be \$1,811,707 and Required Revenue Increase would be \$506,254 or 25.86 percent.

⁵ Order (Ky. PSC July 17, 2025).

⁶ Order (Ky. PSC Oct. 20, 2025).

⁷ Cumberland District's Response to Staff's First Request for Information (Staff's First Request) (filed Aug. 19, 2025); Cumberland District's Response to Staff's Second Request for Information (Staff's Second Request) (filed Sept. 23, 2025); Cumberland District's Response to Staff's Third Request for Information (Staff's Third Request) (filed Oct. 28, 2025).

⁸ Application, Attachment #4, Schedule of Revenue Requirements.

⁹ Application, Attachment #4, Schedule of Adjusted Operations. Bad Debt is listed in the test year with no adjustment but is not included as a pro forma amount.

¹⁰ USoA account 670.

Staff issued its report (Staff's Report) on November 7, 2025,¹¹ summarizing its recommendations regarding Cumberland District's requested rate adjustment. The Staff's Report recommended that Cumberland District's adjusted test year operations support an overall revenue requirement of \$2,321,566 and that a \$325,135 or 16.61 percent increase to pro forma present rate revenues was necessary to generate the overall revenue requirement.¹² In the absence of a cost-of-service study (COSS), Staff allocated its recommend revenue increase evenly across all customer classes to calculate its recommended water rates.

On November 11, 2025, Cumberland District provided four written comments in response to the Staff's Report.¹³ First, Cumberland District stated that it did not agree with the Staff's recommendation to deny the Cumberland District's proposed increase to its Water Loss Reduction Surcharge from \$2.85 to \$3.71 and requested to increase its Water Loss Surcharge to \$3.71.¹⁴ Second, Cumberland District stated that it did not agree with the removal of certain labor expenses from nonrecurring charges, but it did not wish to contest that adjustment.¹⁵ In the remaining two comments, Cumberland District concurred with the remainder of the findings in the Staff's Report¹⁶ and waived its right to

¹¹ Staff Report (issued Nov. 7, 2025).

¹² Staff Report at 26.

¹³ Cumberland District's Response to Staff Report (filed Nov. 11, 2025).

¹⁴ Cumberland District's Response to Staff Report. *See also* Application, Attachment #1 at unnumbered 1.

¹⁵ Cumberland District's Response to Staff Report.

¹⁶ Cumberland District's Response to Staff Report.

request an informal conference or hearing.¹⁷ The case now stands submitted for a decision.

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."¹⁸ 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

Cumberland District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 2,805 residential customers, 85 commercial customers, five industrial customers, and one public authority that reside in Cumberland County, Kentucky.¹⁹

¹⁷ Cumberland District's Response to Staff Report.

¹⁸ *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).

¹⁹ *Annual Report of Cumberland County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report) at 12 and 49.

UNACCOUNTED-FOR WATER LOSS

Over the last five years Cumberland District reported an average water loss of 37.4336 percent,²⁰ as shown in the following table:

<u>Year</u>	<u>Water Loss Percentage</u>
2020	40.6964%
2021	35.2088%
2022	39.0535%
2023	38.1290%
2024	34.0803%
Average	<u>37.4336%</u>

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. Cumberland District reported test year purchased water expense of \$584,741.²¹ However, as discussed in the Purchased Water Expense adjustment below, the Commission adjusted the amount to current rates which resulted in a Purchased Water Expense of \$583,157.²² The revised table below shows that the 2024 total annual cost of water loss to Cumberland District was \$222,858 while the annual cost of water loss in excess of 15 percent was \$124,770.

²⁰ *Annual Report of Cumberland District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 57–58; *Annual Report of Cumberland District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 57–58; *Annual Report of Cumberland District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 57–58; *Annual Report of Cumberland District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 57; and 2024 Annual Report at 57–58.

²¹ Application (filed June 26, 2025), Attachment #4, Schedule of Adjusted Operations.

²² Staff Report at 3 reflects Purchased Water Expense of \$623,191.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 583,157	\$ 70,762	\$ 653,919
Water Loss Percent	34.0803%	34.0803%	34.0803%
Total Water Loss	<u>\$ 198,742</u>	<u>\$ 24,116</u>	<u>\$ 222,858</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 583,157	\$ 70,762	\$ 653,919
Water Loss in Excess of 15%	19.0803%	19.0803%	19.0803%
Disallowed Water Loss	<u>\$ 111,268</u>	<u>\$ 13,502</u>	<u>\$ 124,770</u>

Water Loss Surcharge. Cumberland District currently charges a water loss reduction surcharge of \$2.85 per customer per month, authorized in Case No. 2022-00291.²³ Cumberland District was authorized to assess a monthly surcharge of \$2.85 per customer for service rendered on and after November 1, 2023, and continuing for 48 months or until the total amount of surcharge assessed equals \$386,460 whichever occurs first.²⁴ In its application, Cumberland District proposed to increase its Water Loss Reduction Surcharge from \$2.85 to \$3.71.²⁵ It stated that the increase was to help lower system losses to a more acceptable level.²⁶

²³ Case No. 2022-00291, (Ky. PSC Oct 5, 2023), Order.

²⁴ Case No. 2022-00291, (Ky. PSC Oct. 5, 2023), Order at 25, ordering paragraph 10. The surcharge was renewed for an additional 48 months in Case No. 2023-00228, *Electronic Cumberland County Water District Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring* (Ky. PSC Oct. 5, 2023), Order.

²⁵ Application, Attachment #2, Reasons for Application.

²⁶ Application, Attachment #2, Reasons for Application.

Staff recommended that the Commission deny the request.²⁷ Although Staff recognized that Cumberland District's purchased water expense has increased, the increase does not necessarily result in a corresponding increase in the original surcharge amount.²⁸ The success of the original surcharge, which has been in place for approximately one year, will not be evaluated until completion of the surcharge case.²⁹ Staff had concerns about long-term reliance on surcharges in the absence of a capital plan that includes the evaluation of financing alternatives.³⁰ In its response to Staff's Report, Cumberland District stated that it did not agree with the Staff's recommendation to deny the Cumberland District's proposed increase to its Water Loss Reduction Surcharge.³¹

The Commission finds that the surcharge should remain at \$2.85, as recommended in Staff's Report, because the current Water Loss Reduction Surcharge was authorized in Case No. 2022-00291 at a rate of \$2.85 per customer for defined period of 48 months or until the approved total amount of \$386,460 has been collected. The Commission notes that an increase in the cost of purchased water does not necessarily support an increase in water loss surcharge and did not identify sufficient evidence to support an increase in this proceeding. The Commission encourages Cumberland District to continue efforts toward reducing the unaccounted-for water loss and planning

²⁷ Staff Report at 10.

²⁸ Staff Report at 10.

²⁹ Staff Report at 10.

³⁰ Staff Report at 11.

³¹ Cumberland District's Response to Staff Report.

capital investments to improve infrastructure. Cumberland District may revisit this request, at the appropriate time, in the water loss reduction surcharge case.

TEST PERIOD

The calendar year ending December 31, 2024, was used as the test year to determine the reasonableness of Cumberland District's proposed wastewater rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Description	Test Year	Total Adjustments	Commission Staff's Pro Forma
Total Operating Revenues	\$ 1,953,493	\$ 42,840	\$ 1,996,333
Total Operating Expenses ()	(2,203,892)	283,613	(1,920,279)
Net Operating Income	(250,399)	326,453	76,054
Interest Income	98	0	98
Income Available to Service Debt	\$ (250,301)	\$ 326,453	\$ 76,152

REVIEW AND MODIFICATION OF STAFF'S RECOMMENDATIONS

Cumberland District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Staff's Report, Staff recommended additional adjustments. As noted above, Cumberland District objected to certain adjustments set forth in Staff's Report but did not wish to contest that adjustment. The Commission accepts the recommendations contained in the Staff's Report subject to the following modifications. The Commission finds that the Staff's Report should be modified to substitute the city of Albany's (Albany) tariffed rate of \$2.10 per 1,000 gallons used in the Staff's Report when calculating Purchased Water Expense. Staff used the rate currently paid from Cumberland to Albany as evidenced in the record. Because the

Purchased Water Expense changes as a result of using the correct tariff rate, a corresponding adjustment must be made to the calculation of excess water loss. Accordingly, the revenue requirement determined in the Staff's Report should be modified to reflect the Albany's current tariff wholesale rate and the resulting adjustment to excess water loss expense.

The Commission further finds that a separate investigation should be opened into Albany's current and past charges to Cumberland District to determine whether Albany should be required to file an updated tariff reflecting the rates it is presently charging and whether any refunds to Cumberland District are warranted. The Commission also recommends Cumberland District file applications for Purchased Water Adjustments as necessary when purchased water costs are increased.

The Commission's complete pro forma, with the modifications discussed above, is shown below.

Description	2024 Test Year	Total Adjustments	Commission Staff's Pro Forma	Commission Approved Adjustments	Commission Approved Pro Forma
Operating Revenues					
Water Sales	\$ 1,920,541	\$ 36,970	\$ 1,957,511	\$ -	\$ 1,957,511
Other Revenues					
Forfeited Discounts	0	24,344	24,344	-	24,344
Other Water Revenues	32,952	(18,474)	14,478	-	14,478
Total Operating Revenues	1,953,493	42,840	1,996,333	-	1,996,333
Operating Expenses					
Salaries and Wages - Employees	334,708	75,473			0
		(15,285)	394,896	-	394,896
Salaries and Wages - Directors	10,250	0	10,250		10,250
Employee Pensions and Benefits	54,940	47,204	102,144	-	102,144
Purchased Water	584,741	(118,907)		7,639	
		38,450	504,284	(40,034)	471,889
Purchased Power	70,762	(13,502)	57,260	-	57,260
Materials and Supplies	225,205	(35,665)			0
		(43,350)	146,190	-	146,190
Contractual Services-Other	210,401	(156,288)	54,113	-	54,113
Transportation	63,420	0	63,420	-	63,420
Insurance	43,621	(13,533)	30,088	-	30,088
Rate Case Expenses	0	3,112	3,112	-	3,112
Bad Debt	24,501	0	24,501	-	24,501
Miscellaneous Expenses	244,330	0	244,330	-	244,330
Total	1,866,879	(232,291)	1,634,588	(32,395)	1,602,193
Depreciation	312,498	(60,996)			
		694			
		2,501	254,697	-	254,697
Taxes Other Than Income	24,515	6,479	30,994	-	30,994
Total Operating Expenses	2,203,892	(283,613)	1,920,279	(32,395)	1,887,884
Net Operating Income	(250,399)	326,453	76,054	(32,395)	43,659
Interest Income	98	0	98	-	
Income Available to Service Debt	\$ (250,301)	\$ 326,453	\$ 76,152	\$ (32,395)	\$ 43,757

Billing Analysis. Cumberland District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application.³² Cumberland District reported total metered water sales revenue of \$1,920,541 for the test year.³³ Cumberland District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current

³² Application, Attachment #5, Billing Analysis.

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

tariff to be \$1,957,511 and proposed an adjustment to increase test-year water sales revenue by \$36,970 to reflect the revenues from water rates generated by the billing analysis.³⁴ As discussed in the Forfeited Discounts section below, because \$24,344 was embedded in metered sales in the Statement of Adjusted Operations (SAO), Staff recommended reclassifying \$24,344 from Metered Retail Sales to Forfeited Discounts.³⁵ Staff recommended the Commission accept the adjustment because the amount meets the ratemaking criteria of being known and measurable.³⁶

The Commission finds Staff's recommendations are 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 for the test year.

Forfeited Discounts. Cumberland District reported \$24,344 in late charges.³⁷ The revenue from late charges was reported as Water Sales in the 2024 Annual Report and in the test year of the Application.³⁸ As noted above, the amount of \$24,344 was embedded in the Billing Analysis proposed by Cumberland District. Staff recommended that Cumberland District record its revenues in the accounts prescribed by the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts

³⁴ Application, Attachment #5, Billing Analysis.

³⁵ Staff Report at 11-12.

³⁶ Staff Report at 12.

³⁷ Cumberland District's Response to Staff's Second Request, Item 4a.

³⁸ Cumberland District's Response to Staff's Second Request, Item 4b.

(USoA) when filing its annual reports as required by KRS 278.220.³⁹ Staff also recommended the Commission accept Staff's adjustment to increase Forfeited Discounts within Other Revenues by \$24,344 to reclassify revenues to their proper accounts.⁴⁰ The adjustment to Forfeited Discounts were recommended because these revenues were incorrectly reported as Water Sales and should be reported as revenues from the appropriate Other Revenues categories.⁴¹

The Commission finds that, because the reclassification of late charges within Other Revenues reflects the proper accounting for Forfeited Discounts according to the USoA,⁴² Cumberland District's Other Revenues should be increased by \$24,344 and these amounts reclassified as Forfeited Discounts. The Commission finds the reclassification reasonable, and that it should be accepted.

Other Water Revenues. In its application, Cumberland District reported \$32,952 for Other Water Revenues.⁴³ Other Water Revenues include Miscellaneous Revenues of \$3,203, Miscellaneous Service Fees (Nonrecurring Charges) of \$13,613, Construction Aid Fees of \$5,557, and Miscellaneous of \$10,579.⁴⁴ Cumberland District identified the

³⁹ Staff Report at 12; KRS 278.220 states as follows: "[t]he commission may establish a system of accounts to be kept by utilities subject to its jurisdiction or may classify utilities and establish a system of accounts for each class and may prescribe the manner in which such accounts shall be kept. The system established shall conform as nearly as practicable to the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners,..."

⁴⁰ Staff Report at 12.

⁴¹ Staff Report at 12-13.

⁴² USoA, Other Water Revenues, Account 470. Forfeited Discounts.

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

⁴⁴ Cumberland District's Response to Staff's First Request, Item 4.

accounts where each Nonrecurring Charge was recorded.⁴⁵ No adjustment was made to Miscellaneous Revenues but were made to the other categories with an explanation of the adjustments to Other Water Revenues is presented below.

Nonrecurring Charges. In the Staff's Report, Staff removed field labor and office/clerical labor costs⁴⁶ associated with labor performed by current employees during regular business hours from each nonrecurring charge and determined that pro forma Nonrecurring Charges should be \$11,275 as shown below. Due to the nature of the general ledger account that showed most entries as water revenues,⁴⁷ Staff was unable to reconcile the difference between the amount Cumberland District should have reported and the actual amount reported in the test year. Staff recommended a reduction of \$2,338 to reconcile the test year to match the pro forma amount.⁴⁸

Miscellaneous. Cumberland District reported \$10,579 in the test year. In review of the general ledger, Staff determined these amounts were a negative expense account.⁴⁹ Included in this account was revenue from Cumberland District's surcharge and other reimbursements. These amounts should not be included as recurring revenues

⁴⁵ Cumberland District's Response to Staff's Second Request, Item 5, 2-5_Nonrecurring_Charges_GL_Accounts.

⁴⁶ 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).

⁴⁷ Cumberland District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account 4040, Miscellaneous Service Fee.

⁴⁸ Staff Report at 13-14.

⁴⁹ Cumberland District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account 7000, Miscellaneous.

as surcharge funds should be recorded as Capital Investments and reimbursements are not expected to be received every year. Staff removed the full amount, \$10,579, of the account from Cumberland District's Other Revenues as these are not expected to reoccur and are not a good representation of a test year.

Construction Aid Fees. Construction Aid Fees of \$5,557 are contributions in aid of construction and should be deducted from Other Water Revenues. Cumberland District stated that Construction Aid Fees are not expected to recur and, therefore, should be removed from the test year.⁵⁰ Staff noted that contribution to Construction Aid Fees should not be included in Other Revenues and decreased Other Water Revenues by \$5,557.

The net effect of the above adjustments results in Other Water Revenues of \$14,478, which is a pro forma decrease of \$18,474 from Cumberland District's test year amount, as shown in the table below. Staff recommended the Commission accept Staff's adjustments to Other Water Revenues because the amount meets the ratemaking criteria of being known and measurable and follows appropriate accounting principles.⁵¹

The Commission finds that the Staff's recommendation should be accepted, as labor expenses resulting from work performed during normal business hours should not be recovered through nonrecurring charges.⁵² The Commission requires that charges be

⁵⁰ Cumberland District's Response to Staff's First Request, Item 4.

⁵¹ Staff Report at 14-15.

⁵² Case No. 2023-00090, *Electronic Application of Henry County Water District #2 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2023); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 4, 2024); Case No. 2023-00090, *Electronic Application of Kirksville Water Association Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024).

directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a nonrecurring charge for service provided by current employees during normal working hours. Thus, the Commission finds that Staff's recommendation is reasonable, the revised nonrecurring charges as described in Appendix A are reasonable, and that Cumberland District's Other Water Revenues should be increased by \$2,338 to reconcile the test year to match the pro forma amount and because only the incremental cost related to the service should be recovered for service provided by current employees during normal business hours.

The Commission further finds the removal of the full amount, \$10,579 from the Miscellaneous account and the Construction Aid Fees of \$5,557 proceeds not expected to recur are reasonable and agrees with Staff's total adjustment of \$18,474.

Description	Test Year	Cumberland County WD Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	Pro Forma
Other Revenues					
Miscellaneous Revenues	\$ 3,203	\$ -		\$ -	\$ 3,203
Nonrecurring Charges	13,613		(2,338)	(2,338)	11,275
Miscellaenous	10,579		(10,579)	(10,579)	0
Construction Aid Fees	5,557		(5,557)	(5,557)	0
Total	<u>\$ 32,952</u>	<u>\$ -</u>	<u>\$ (18,474)</u>	<u>\$ (18,474)</u>	<u>\$ 14,478</u>

Salaries and Wages - Employees. Cumberland District reported \$334,708 of test year expenses related to Salaries and Wages – Employees and proposed two pro forma adjustments.⁵³ First, Cumberland District increased expenses by \$75,473 to reflect the impact of changes in personnel and wage rates since the test year.⁵⁴ Cumberland District

⁵³ Application, Attachment 4, Schedule of Adjusted Operations.

⁵⁴ Application, Attachment 4, Schedule of Adjusted Operations.

provided the test year employee list, test year total hours worked,⁵⁵ current wage rate and current employee list.⁵⁶ During the test year, Cumberland's District General Manager retired and was replaced by an existing employee.⁵⁷ Cumberland District currently has nine full-time employees and anticipates that two new positions will be filled at the beginning of the first quarter of 2026.⁵⁸ Cumberland District stated that the full-time employees are scheduled to work 2,080 hours annually⁵⁹ and also stated that each full-time employee is paid \$400 per year in "incentive pay."⁶⁰ Staff reviewed Cumberland District's calculation and recommended the Commission accept Cumberland District's proposed adjustment because it is known and measurable.⁶¹

The Commission finds that Cumberland District's recommendation is reasonable and approves the adjustment because the amount meets the ratemaking criteria of being known and measurable.

The second adjustment Cumberland District proposed was to decrease its Salaries and Employees – Wages by \$17,550 to account for uncapitalized tap-fee expenses during the test year.⁶² In its response to Staff's First Request, Cumberland District incorrectly reported 45 new tap installations. Cumberland District confirmed the correct number of

⁵⁵ Cumberland District's Response to Staff's First Request, Item 5, Payroll_Summary_2024

⁵⁶ Cumberland District's Response to Staff's First Request, Item 3, Rate Model Tab Wages.

⁵⁷ Cumberland District's Response to Staff's First Request, Item 5, Payroll_Summary_2024.

⁵⁸ Cumberland District's Response to Staff's Second Request, Item 9.

⁵⁹ Cumberland District's Response to Staff's First Request, Item 5c.

⁶⁰ Cumberland District's Response to Staff's First Request, Item 5f.

⁶¹ Staff Report at 16.

⁶² Application, Attachment 4, Schedule of Adjusted Operations.

new tap installations was 37 ¾-inch taps and two 1-inch taps.⁶³ Using the correct number of tap installations, Staff recalculated the amount and recommended using test year capitalized wages of \$15,285, which is a decrease of \$2,265 from Cumberland District's adjustment. Staff recommended the Commission accept the Staff's adjustment because it reflects the proper accounting for water connection expenses according to the USoA.⁶⁴

The Commission finds that Staff's adjustment is reasonable and should be accepted because wages paid for tap installation are construction costs, and the USoA requires that construction costs be capitalized as utility plant in service and depreciated.⁶⁵

Employee Pensions and Benefits. Cumberland District reported \$54,940 of expenses related to Employee Pensions and Benefits and proposed an adjustment to increase its expenses by \$49,816.⁶⁶ Cumberland District stated that the district pays 80 percent of its employees' health insurance premiums.⁶⁷ Cumberland District proposed a further adjustment based on the Commission's recent findings⁶⁸ that expenses associated with this level of employer funded premiums be adjusted to be consistent with the Bureau of Labor Statistics (BLS) national average for an employer's share of health insurance premiums. During the pendency of this matter, Cumberland District confirmed that it would not propose the same adjustment to employee health insurance premiums based on BLS data, as it did in the Application, as Cumberland District believed that the

⁶³ Cumberland District's Response to Staff's Second Request, Item 10.

⁶⁴ Staff Report at 16.

⁶⁵ NARUC Uniform System of Accounts for Class A/B Water Companies (1996) at 54-56.

⁶⁶ Application, Attachment 4, Schedule of Adjusted Operations.

⁶⁷ Application, Attachment 4, References, Reference C.

⁶⁸ Application, Attachment 4, References, Reference C.

providing 80 percent of employee premiums to be an appropriate level in the overall employee compensation. Cumberland District also provided a revised calculation.⁶⁹ Based on the invoices⁷⁰ provided by the Cumberland District, Staff determined that a portion of the proposed increase was overstated and calculated a \$2,612 decrease to the Cumberland District's proposed adjustment, resulting in a Pro Forma amount of \$102,144. Staff recommended the Commission accept Staff's adjustment because it is known and measurable.⁷¹

The Commission finds that Staff's recommended adjustments are reasonable and should be accepted because it is known and measurable.

Type of Premium	Number of Employees	Total Cost	Current Employee Contribution Amount	Current Employer Contribution
Medical Insurance - Employee Only	10	\$ 8,793	\$ 1,758.70	\$ 7,034.63
Medical Insurance - Employee + Spouse	1	1,847	369.32	\$ 1,477.26
Total Medical Insurance	<u>11</u>	10,640	2,128	8,512
Multiplied by: 12 Months		12	12	12
Total Annual Gross Health Insurance Cost		\$ 127,680	\$ 25,536	\$ 102,144
Test Year Net Insurance Cost ()				(54,940)
Cumberland Pro Forma Adjustment ()				(49,816)
Commission Staff's Adjustment				<u>\$ (2,612)</u>

Purchased Water. Cumberland District purchases water from the city of Burkesville (Burkesville), Albany and Columbia/Adair Utilities District (Columbia/Adair District).⁷² Cumberland District reported \$584,741 in Purchased Water Expense and

⁶⁹ Cumberland District's Response to Staff's Third Request, Item 1, 3_1b_Rate_Model.

⁷⁰ Cumberland District Response to Staff's First Request, Item 6c, 6c_Medical_Invoice_Recent.

⁷¹ Staff Report at 17.

⁷² 2024 Annual Report at 54.

proposed no adjustments to purchased water cost.⁷³ Staff calculated Purchased Water Expense using the test year gallons purchased and the current rates resulting in a pro forma Purchased Water cost of \$623,191, as shown in the table below. Using the initially provided wholesale rates of \$2.84 for Burkesville,⁷⁴ \$2.92 for Albany Water,⁷⁵ \$2.75 for Columbia/Adair District,⁷⁶ and documentation of gallons purchased during the test year, Staff calculated an increase to the Purchased Water Expense of \$38,450 from the amount proposed by Cumberland District. Cumberland District filed an amended response to Staff's Second Request stating that the Albany had increased its wholesale rate without submitting an updated tariff sheet to the Commission,⁷⁷ adjusting the wholesale rate from \$2.10 to \$2.92.⁷⁸ While the revenue requirement in the Staff's Report was calculated based on the current wholesale rates being paid by Cumberland District based on the record, Staff recommended further investigation of this issue. In the Staff's Report, Staff recommended the Commission accept Staff's adjustment as it is just and reasonable based on documentation of gallons purchased and actual wholesale rates being charged by the suppliers in the case record.⁷⁹

⁷³ Application, Attachment 4, Schedule of Adjusted Operations.

⁷⁴ Burkesville current Tariff, 4th Revised Sheet, Page 1.

⁷⁵ Amended Response to Staff's Second Request (filed Oct. 2, 2025), Albany Billing System Wholesale Rates.

⁷⁶ TFS2025-00484, Electronic Tariff Filing of the Water Purchase Contract between Columbia-Adair Utilities and Cumberland County Water District (filed Oct. 31, 2025). Contract states "[t]hat Supplier will furnish water to Purchaser at a rate of \$2.75/1,000 gallons of water."

⁷⁷ P.S.C. KY. NO. 1, Sheet 1, (issued Sept. 3, 2009), effective Oct. 15, 2009, indicates \$2.10 per 1,000 gallons to Cumberland District.

⁷⁸ Amended Response to Staff's Second Request, Item 2b.

⁷⁹ Staff Report at 18-19.

Upon review of Commission records related to Albany's tariffed rates, Albany has not filed an updated tariff to reflect the rate increase.⁸⁰ Pursuant to KRS 278.160(2), Albany may not charge a rate other than what has been filed with the Commission. Municipalities are subject to Commission jurisdiction pursuant to KRS 278.200 when contracting with a regulated utility, such as Cumberland District. Therefore, the Commission cannot recognize the \$2.92 rate being charged by Albany, at this time. Although Cumberland District may be entitled to a refund, the Commission must calculate a fair, just and reasonable rate taking into consideration the rates Cumberland District must pay as filed, reviewed for reasonableness, and accepted by the Commission. As such, the Commission must use \$2.10 wholesale rate to calculate Purchased Water Expense.

	City of Burkesville	City of Albany	Columbia / Adair Utilities District	Total
Gallons	168,398,200	48,821,600	865,880	218,085,680
Current Purchase Rate	\$ 2.84	\$ 2.92	\$ 2.75	\$ 2.8576
Pro Forma Cost	<u>\$ 478,251</u>	<u>\$ 142,559</u>	<u>\$ 2,381</u>	\$ 623,191
Test Year Purchase Cost				584,741
Increase in Purchase Cost				<u>\$ 38,450</u>

As discussed above in Review and Modification Section, the Commission finds that the Purchased Water Expense calculated in the Staff's Report should be modified to reflect the Albany's tariffed wholesale rate of \$2.10 per 1,000 gallons, rather than the \$2.92 per 1,000 gallons included in the Staff's Report.

⁸⁰ As of December 10, 2025.

Accordingly, the Commission modified the pro forma Purchased Water Expense as shown in the table below.

	City of Burkesville	City of Albany	Columbia / Adair Utilities District	Total
Gallons	168,398,200	48,821,600	865,880	218,085,680
Current Purchase Rate	\$ 2.84	\$ 2.10	\$ 2.75	\$ 2.6740
Pro Forma Cost	<u>\$ 478,251</u>	<u>\$ 102,525</u>	<u>\$ 2,381</u>	\$ 583,157
Test Year Purchase Cost				584,741
Increase in Purchase Cost				<u>\$ (1,584)</u>

Unaccounted – for Water Loss. In its application, Cumberland District proposed an adjustment to decrease Purchased Water Expense by \$111,570 and Purchased Power Expense by \$13,502⁸¹ to reflect the disallowance of purchased water and purchased power expenses in excess of 15 percent. During the test year, Cumberland District reported a water loss of 34.0803 percent.⁸² Commission regulations state that, for ratemaking purposes, expenses for water in excess of 15 percent shall not be included for ratemaking purposes.⁸³ Staff calculated a disallowed Purchased Water Expense of \$118,907 using the adjusted cost of \$623,191, which is a \$7,337 increase from Cumberland District's proposed adjustment of a \$111,570 decrease. Cumberland District proposed a decrease of \$13,502 to Purchased Power Expense. Staff agreed with Cumberland District's adjustment to Purchased Power Expense. The table below summarizes the disallowed Purchased Water and Purchased Power Expenses for

⁸¹ Application, Attachment 4, Schedule of Adjusted Operations.

⁸² 2024 Annual Report at 57 and 58.

⁸³ 807 KAR 5:066 (Water), Section 6(3) (Water Supply Management).

Cumberland District. Staff recommended the Commission accept the Staff's adjustment of a \$7,337 increase to Purchased Water Expense as it is known and measurable.⁸⁴

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 623,191	\$ 70,762	\$ 693,953
Water Loss in Excess of 15%	19.0803%	19.0803%	19.0803%
Disallowed Water Loss	<u>\$ 118,907</u>	<u>\$ 13,502</u>	<u>\$ 132,409</u>

As discussed above in Review and Modification Section, the Commission has modified Cumberland District's Purchased Water Expense to reflect the Albany's tariff wholesale rate of \$2.10 per 1,000 gallons. Because the Unaccounted - for Water Loss adjustment is calculated using the total purchased water costs, the Commission finds that the Staff's amount must be recalculated. Using the adjusted total Purchased Water Expense, the Commission has revised the amount to ensure that only known and measurable expenses are included in Cumberland District's revenue requirement.

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 583,157	\$ 70,762	\$ 653,919
Water Loss in Excess of 15%	19.0803%	19.0803%	19.0803%
Disallowed Water Loss	<u>\$ 111,268</u>	<u>\$ 13,502</u>	<u>\$ 124,770</u>

Materials and Supplies. Cumberland District reported a Materials and Supplies Expense of \$225,205 and proposed one adjustment of \$40,950 for exclusion of materials used on tap installations.⁸⁵ In its Response to Staff's First Request, Cumberland District incorrectly reported 45 new tap installations. Cumberland District confirmed the corrected

⁸⁴ Staff Report at 19-20.

⁸⁵ Application, Attachment 4, Schedule of Adjusted Operations.

new tap installations was 37 ¾-inch taps and two 1-inch taps.⁸⁶ Using the corrected number of tap installations provided by Cumberland District, Staff calculated a \$5,285 decrease to Materials used in tap fees. During the test year, Cumberland District paid \$28,567.68⁸⁷ and \$14,783.43⁸⁸ to Fortiline for materials used for Butler Hollow and Crawley Road projects.⁸⁹ This cost was originally reported as a Materials and Supplies Expense. Cumberland District stated that this expense should have been capitalized.⁹⁰ Staff capitalized this cost and made a corresponding increase to test year depreciation of \$694. This results in a \$43,350 decrease to Materials and Supplies Expense. Staff recommended the Commission accept the Staff's adjustment in Materials and Supplies Expense of \$146,190 because the adjustment applies appropriate accounting principles for capitalized maintenance.⁹¹

The Commission finds that Staff's adjustments are reasonable to properly capitalize known and measurable expenses, as the amounts are based on reliable information in the record and reflect values that have either already occurred or can be determined with reasonable certainty, and therefore, accepts the adjustment.

⁸⁶ Cumberland District's Response to Staff's Second Request, Item 10.

⁸⁷ Cumberland District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account 6200, Materials and Supplies.

⁸⁸ Cumberland District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account 6200, Materials and Supplies.

⁸⁹ Cumberland District's Response to Staff's Second Request, Item 1b.

⁹⁰ Cumberland District's Response to Staff's Second Request, Item 1b.

⁹¹ Staff Report at 21.

Contractual Services - Other. Cumberland District reported a Contractual Services Expense of \$210,401.⁹² Cumberland District had no adjustments to the test year amount. During the test year, Cumberland District paid \$130,070⁹³ to Stotts Construction Co, Inc. and \$26,218.14⁹⁴ to Monarch Engineering, Inc. These expenses listed as Contractual Services were used for engineering and construction of the Warsaw Branch Road Project, and Cumberland District stated that this should have been capitalized for depreciation.⁹⁵ Staff calculated a decrease of \$156,288 in Contractual Services, resulting in pro forma amount of \$63,420 and made corresponding increase to test year depreciation of \$2,501. Staff recommended the Commission accept the Staff's adjustment as it applies appropriate accounting principles for capitalized construction costs.⁹⁶

The Commission finds that Staff's adjustment is reasonable and should be accepted because the USoA requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives.

Insurance. Cumberland District reported \$43,621 of expenses related to Insurance and proposed no adjustments.⁹⁷ Staff reviewed Cumberland District's general ledger⁹⁸

⁹² Application, Attachment 4, Schedule of Adjusted Operations.

⁹³ Cumberland District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account 6310, Contractual Service.

⁹⁴ Cumberland District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account 6310, Contractual Service.

⁹⁵ Cumberland District's Response to Staff's Second Request, Item 10.

⁹⁶ Staff Report at 22.

⁹⁷ Application, Attachment 4, Schedule of Adjusted Operations.

⁹⁸ Cumberland District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account Number 6560.6, 6560 and 6560.10.

and submitted invoices⁹⁹ and recalculated the expense based on the submitted invoices and recommended a decrease of \$13,532 to the test year amounts to match the most recent invoices. Staff recommended the Commission accept Staff's proposed adjustment because it is known and measurable.¹⁰⁰

The Commission finds Staff's recommended adjustments are reasonable and should be accepted as the amounts are known and measurable because they are based on information in the record and reflect values that have either already occurred or can be determined with reasonable certainty.

Rate Case Amortization. In its application, Cumberland District did not report any test year expense related to Rate Case Amortization but proposed an adjustment to increase Rate Case Amortization by \$3,112.¹⁰¹ Cumberland District provided a copy of the Kentucky Rural Water Association quote for the preparation of the rate case that the expense was not to exceed \$9,335.¹⁰² Cumberland District proposed to amortize the rate case expense over three years, Staff agreed with Cumberland District's methodology because utilities are expected to file for a rate case every three to five years. Staff recommended the Commission accept Cumberland District's proposed adjustment because it is known and measurable.¹⁰³

⁹⁹ Cumberland District's Response to Staff's First Request, Item 9, Insurance Certificates and Cumberland District's Response to Staff's Second Request, Item 12, 2_12_WC_Insurance_Invoice_2025.

¹⁰⁰ Staff Report at 22.

¹⁰¹ Application, Attachment 4, Schedule of Adjusted Operations.

¹⁰² Cumberland District's Response to Staff's First Request, Item 7b.

¹⁰³ Staff Report at 22-23.

Descirption	Amount
Kentucky Rural Water Association	9,335
Amortization Years	3
Annual Rate Case Expense	<u>\$ 3,112</u>

The Commission finds Staff's recommended adjustment is reasonable and should be accepted because the amounts are supported by known and measurable information in the record.

Depreciation. Cumberland District reported \$312,498 of expenses related to Depreciation and proposed one adjustment.¹⁰⁴ Cumberland District proposed a \$60,057 decrease to bring asset lives to the midpoint of the ranges recommended by NARUC in its publication "Depreciation for Small Utilities."¹⁰⁵ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC study. When no evidence exists to support a specific life that is outside NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Staff reviewed and recalculated the Depreciation Schedule provided by Cumberland District using NARUC's midpoint ranges as shown below and recommended an adjustment of a \$60,996 decrease which is \$939 more than Cumberland District's proposed adjustment. Staff recommended the Commission accept Staff's adjustment to Depreciation because the amount is known and measurable.¹⁰⁶

¹⁰⁴ Application, Attachment 4, Schedule of Adjusted Operations.

¹⁰⁵ Application, Attachment 4, References, Reference F.

¹⁰⁶ Staff Report at 23.

Asset Class	Original Cost	NARUC Recommended Service Lives	Test Year Depreciation	Staff Calculated Depreciation	Depreciation Adjustment
Structures & Improvements	\$ 104,563	37.5	\$ 5,091	\$ 2,788	\$ (2,303)
Pumping Plant					
Construction 2007	19,130	20.0	957	957	-
Hydraulic Hammer for Mini Excavator	8,850	20.0	885	443	(443)
Pumping Station - Pittman Creek	29,588	20.0	2,959	1,479	(1,479)
Joe Scott Ridge Booster Pump Station	1,100,000	37.5	-	29,333	29,333
Transmission & Distribution Plant					
Transmission & Distribution Mains	10,232,859	62.5	270,320	163,726	(106,594)
Meters/Meters Installations					-
Meter Installation	2,358	45.0	59	52	(7)
Dutch Ck & Gray Line	2,846	40.0	71	71	-
Meter Valve	785	40.0	39	20	(20)
Meter	5,335	40.0	267	133	(133)
Hersey Radio Read Meters	67,915	40.0	6,792	1,698	(5,094)
Hwy 1206 Master Meter	19,415	40.0	971	485	(485)
New Meters	36,624	40.0	916	916	-
New Meters	24,236	40.0	606	606	-
Pump Equipment	17,760	20.0	1,776	888	(888)
Services	60,884	40.0	1,522	1,522	(0)
Reservoirs & Tanks	63,500	45.0	1,602	1,411	(191)
Marrowbone Main Replacement	1,400,000	62.5	-	22,400	22,400
Transportation Equipment					
Entire Group	158,011	7.0	17,666	22,573	4,907
Total Depreciation			312,498	251,501	(60,996)
Cumberland District Proposed Adjustment ()					(60,057)
Difference Between Staff's and Cumberland District's Adjustment					(939)

As explained in Materials and Supplies and Contractual Services – Other, the expenses related to the materials used for Butler Hollow and Crawley Road projects are capital expenditures that should be capitalized as Utility plant in Service and depreciated over their estimated useful lives.¹⁰⁷ Cumberland District stated that the expenses related to the materials used for Butler Hollow and Crawley Road projects should have been capitalized.¹⁰⁸ Staff calculated the annual depreciation amount for the test year and depreciation expense of Materials and Supplies by \$694 and Contractual Services – Other by \$2,501. Staff recommended the Commission accept Staff's \$694 and \$2,501

¹⁰⁷ Cumberland District's Response to Staff's Second Request, Item 1b.

¹⁰⁸ Cumberland District's Response to Staff's Second Request, Item 1b.

increase to Depreciation Expense, because the USoA requires the assets to be depreciated over their estimated useful lives.¹⁰⁹

Asset Class	Original Cost	NARUC Recommended Service Lives	Test Year Depreciation	Staff Calculated Depreciation	Depreciation Adjustment
Fortiline	43,351	62.5	-	694	694
Stotts and Monarch	156,288	62.5	-	2,501	2,501
Total Depreciation			\$ -	\$ 3,194	\$ 3,195
Cumberland District's Proposed Adjustment ()					-
Difference Between Staff's and Cumberland District's Adjustment					\$ 3,195

The Commission finds Staff's adjustments are reasonable and should be accepted as the adjustments were based on the NARUC study discussed above and because the amounts are known and measurable.

Taxes Other Than Income. Cumberland District reported \$24,515 of expenses related to Taxes Other than Income and proposed an adjustment to increase by its expenses by \$6,864.¹¹⁰ Due to the changes to Salaries and Wages – Employee Expense, Staff made an adjustment of \$6,479 which is a \$385 decrease from Cumberland District's proposed adjustment. The adjustment results in a pro forma test year amount of \$30,994. Staff recommended the Commission accept Staff's adjustment as it is known and measurable.¹¹¹

The Commission finds Staff's recommended adjustment is reasonable and should be accepted as the amount is known and measurable because it is based on reliable information in the record and reflect values that have either already occurred or can be determined with reasonable certainty.

¹⁰⁹ Staff Report at 24.

¹¹⁰ Application, Attachment 4, References, Reference E.

¹¹¹ Staff Report at 25.

SUMMARY OF ADJUSTMENTS

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

Description	Commission Staff's Pro Forma	Commission Approved Adjustments	Commission Approved Pro Forma
Total Operating Revenues	\$ 1,996,333	\$ -	\$ 1,996,333
Total Operating Expenses ()	(1,920,279)	32,395	(1,887,884)
Net Operating Income	76,054	(32,395)	43,659
Interest Income	98	-	98
Income Available to Service Debt	<u>\$ 76,152</u>	<u>\$ (32,395)</u>	<u>\$ 43,757</u>

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expense; (2) recovery of depreciation expense, a non-cash item, to provide working capital;¹¹² (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense. Staff noted that Cumberland District has included its Depreciation and Taxes expenses as a separate item; however, Staff has

¹¹² 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, 725 (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. Working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets.

included the Depreciation and Taxes expenses in Total Operating Expenses. The table below reflects Staff's, and the Commission accepted calculated revenue requirement.

Description	Commission Staff's Report	Commission Approved
Pro Forma Operating Expenses		
Total Operating Expenses	\$ 1,920,279	\$ 1,887,884
Depreciation and Taxes	0	0
Average Annual Principal and Interest Payments	334,406	334,406
Additional Working Capital at 20%	66,881	66,881
Total Revenue Requirement	2,321,566	2,289,171
Forfeited Discounts	24,344	24,344
Miscellaneous	0	0
Other Water Revenues	14,478	14,478
Total Other Income	98	98
Revenue Required From Water Sales	2,282,646	2,250,251
Revenue from Sales at Present Rates ()	(1,957,511)	(1,957,511)
Required Revenue Increase / (Decrease)	\$ 325,135	\$ 292,740
Percentage Increase / (Decrease)	16.61%	14.95%

Average Annual Principal and Interest Payments and Additional Working Capital.

Cumberland District requested recovery of the average annual principal and interest on its indebtedness in the amount of \$334,406 based on a five-year average of the annual principal, interest, and fee payments for the loans listed in the table below for the years 2026 through 2030.¹¹³ Staff agreed with the methodology Cumberland District proposed because it was reasonable and recommended the Commission accept Cumberland District's proposed amount.¹¹⁴ The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the

¹¹³ Application, Attachment 9, Debt Service Schedule.

¹¹⁴ Staff Report at 26.

minimum net revenues required by a district's lenders that are above its average annual debt payments. In its exhibits, Cumberland District requested recovery of an allowance for working capital that is equal to 20 percent of its average annual debt service, or \$66,881.¹¹⁵ Following the Commission's historic practice of including additional working capital, Staff agreed with Cumberland District's proposed methodology and amount.¹¹⁶

The Commission finds that Cumberland District's calculated Average Interest and Principal of \$334,406 and Additional Working Capital of \$66,881 should be included in Cumberland District's Revenue Requirement because the DSC methodology allows for the recovery of the principal and interest payments and the Additional Working Capital is a direct result of the calculated Annual Debt Principal and Interest payments.

Description	Total Payment					Total
	2026	2027	2028	2029	2030	
2005 KRWFC	\$ 6,627	\$ 7,419	\$ 7,157	\$ 6,894	\$ 7,502	\$ 35,599
2011 USDA	39,404	39,409	39,403	39,385	39,356	196,957
2014 USDA	20,583	20,821	21,046	20,758	20,969	104,177
2016 KIA	47,874	47,875	47,876	47,874	48,661	240,160
2017 USDA	24,966	25,213	24,950	25,188	24,916	125,233
2018 USDA	15,771	15,659	16,046	15,928	16,310	79,714
2020 KRWFC	109,000	99,926	91,934	88,737	85,974	475,571
First and Farmers	73,316	0	0	0	0	73,316
First and Farmers	3,731	35,715	0	0	0	39,445
2025 KIA (Joe Scott Pump Station)	60,584	60,478	60,372	60,265	60,157	301,856
Total	<u>\$ 401,855</u>	<u>\$ 352,515</u>	<u>\$ 308,784</u>	<u>\$ 305,029</u>	<u>\$ 303,845</u>	<u>\$ 1,672,028</u>
Five Year Average						<u>\$ 334,406</u>
Additional Working Capital at 20 Percent						<u>\$ 66,881</u>

RATE DESIGN

In its application, Cumberland District proposed to increase its monthly water service rates by 24.61 percent to all its water customers evenly across the board.¹¹⁷

¹¹⁵ Application, Attachment 4, Schedule of Adjusted Operations.

¹¹⁶ Staff Report at 27.

¹¹⁷ Application, Attachment 1, Customer Notice.

Cumberland District stated that it did not consider filing a COSS at this time considering no material changes to the water system that would necessitate preparation of a new COSS.¹¹⁸ 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 no evidence has been entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.¹¹⁹ Finding no such evidence in this case, Staff initially allocated the \$325,135 revenue increase evenly across Cumberland District's monthly retail water service rates in the Staff's Report. However, as previously explained in the Review and Modification of Staff's Recommendations, the Commission's calculations result in a \$292,740 revenue increase to be distributed evenly across Cumberland District's monthly retail water service rates.

The rates recommended in Appendix B to this report are based upon the revenue requirement, as calculated by the Commission, and will produce sufficient revenues from water sales to recover the \$2,250,251 revenue required from rates, an approximate 14.95 percent increase. The monthly water bill for a typical residential customer using approximately 3,551 gallons per month¹²⁰ will increase from \$49.52 to \$56.93 for an increase of \$7.41 or approximately 14.96 percent. Cumberland District also charges a monthly water loss reduction surcharge, established in Case No. 2022-00291, of \$2.85 per month per customer.¹²¹ This increases the typical residential customer's monthly

¹¹⁸ Cumberland District's Response to Staff's First Request, Item 13.

¹¹⁹ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

¹²⁰ Application, Attachment 1, Customer Notice. The average retail customer uses 3,551 gallons per month.

¹²¹ Case No. 2022-00291, (Ky. PSC Oct 5, 2023), Order.

water bill, including the surcharge, from \$52.37 to \$59.78, an increase of \$7.41, or 14.15 percent.

The Commission finds that the evidence provided in the record and the analysis shows that the revenue requirement and the allocation methodology used by the Staff are fair, just and reasonable and should be accepted.

Nonrecurring Charges. Staff has reviewed Cumberland District's Nonrecurring Charges. Adjustments to Nonrecurring Charges are discussed above regarding revenue requirement and here again regarding design. Cumberland District provided updated cost justification information for the Nonrecurring Charges¹²² as well as a list of the number of occurrences for each of its Nonrecurring Charges.¹²³ Cumberland District's current Nonrecurring Charges do not include regular business hour labor or clerical expenses.¹²⁴ Staff reviewed the cost justification information provided by Cumberland District, noted that the justification did include regular business hour labor and clerical expenses, which Staff then removed. Staff also removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal business hours. Field Collection Charge, Meter Re-Read Charge, Meter Test Charge, New Service Charge, and Service Call / Investigation all increased \$2, from \$18 to \$20, due to increasing costs for Office Supplies and Transportation. The Reconnection Charge increased \$4, from \$36 to \$40, due to increasing costs for Office Supplies and Transportation. The Returned Check Charge increased \$16.50, from \$8.50 to \$25, due

¹²² Cumberland District's Response to Staff's First Request, Item 16.

¹²³ Cumberland District's Response to Staff's First Request, Item 15.

¹²⁴ Case No. 2022-00291, (Ky. PSC Oct. 5, 2023) final Order at 22.

to increasing costs on Office Supplies, Transportation and Bank Charges. After Hours Charge increased \$30, from \$50 to \$80, due to increasing costs on Field Labor, Office Supplies, and Transportation.¹²⁵ Staff recommended that the Commission accept the respective adjustments for the charges mentioned above, as these were supported by Cumberland District in the cost justification provided,¹²⁶ and the amounts meet the ratemaking criteria of being known and measurable. The cost justification information, shown in Appendix A, was provided by Cumberland District and supports the adjustments to the Nonrecurring Charges.

The adjustments discussed above result in the following revised Nonrecurring Charges:

Charge	Current Charge	Revised Charge
Field Collection Charge	\$ 18.00	\$ 20.00
Meter Relocation Charge	Actual Cost	Actual Cost
Meter Re-Read Charge	\$ 18.00	\$ 20.00
Meter Test Charge	\$ 18.00	\$ 20.00
New Service Charge	\$ 18.00	\$ 20.00
Reconnection Charge	\$ 36.00	\$ 40.00
Returned Check Charge	\$ 8.50	\$ 25.00
Service Call / Investigation	\$ 18.00	\$ 20.00
After Hours Charge	\$ 50.00	\$ 80.00

The Commission finds that Staff's recommendation is reasonable and should be accepted, and the revised nonrecurring charges as described above and in Appendix B to be reasonable.

¹²⁵ Cumberland District's Response to Staff's First Request, Item 16.

¹²⁶ Cumberland District's Response to Staff's First Request, Item 16.

Tap-On Fees. Cumberland District provided an updated cost justification for its 5/8-Inch x 3/4-Inch Meter and 1-Inch Meter Connection/Tap-On Charge.¹²⁷ Staff reviewed the cost justification information provided by Cumberland District and notes it supports an increase in the 5/8-Inch x 3/4-Inch Meter and 1-Inch Meter Connection/Tap-On Charge. Staff recommended that the Commission accept Cumberland District's supported increase for the Tap-On fee from \$1,300 to \$1,652 for the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge and from \$1,425 to \$2,173 for the 1-Inch Meter Connection/Tap-On Charge.¹²⁸ Staff recommended increasing the tap on fees to meet the expenses supported by the cost justification provided by Cumberland District for both meter installs.¹²⁹

The Commission agrees with Cumberland District's supported increase of the 5/8-Inch x 3/4-Inch Meter and 1-Inch Meter Connection/Tap-On Charge to \$1,652 and \$2,173 respectively, to reflect the current expenses incurred to install new taps, in order to prevent an under recovery for the tap fee. Increasing the tap fee rate in line with Cumberland District's actual cost will result in a fair, just and reasonable rate. In addition, over time, under recovery of a particular charge will result in degradation of the utility's financial condition.

¹²⁷ Cumberland District's Response to Staff's First Request, Item 17, 17_Tap_Fee_Cost_Justification_Small. Cumberland District's Response to Staff's Second Request, Item 6, 2-6_Tap_Fee_1_Inch_Cost_Justification.

¹²⁸ Staff Report at 10.

¹²⁹ Staff Report at 10.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Staff's Report, along with the modifications, are supported by the evidence of record and are reasonable. By applying DSC method to Cumberland District's pro forma operations results in an Overall Revenue Requirement of \$2,289,171 and that a \$292,740 revenue increase or 14.95 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement. The rates contained in Appendix B to the Order are fair, just and reasonable based on the evidence in this record.

The Commission further finds that a separate investigation should be opened to determine whether (1) Albany violated KRS 278.160(2) by charging Cumberland District a rate other than the rate specified by tariff on file with the Commission, (2) civil penalties should be imposed pursuant to KRS 278.990(1), and a refund should be issued to Cumberland District. Under KRS 278.160(2),

No utility shall charge, demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules, and no person shall receive any service from any utility for a compensation greater or less than that prescribed in such schedules.


Pursuant to KRS 278.200, the Commission maintains jurisdiction over contracts between a city and a regulated utility.¹³⁰ Under KRS 278.990(1), a civil penalty of up to \$2,500 may be imposed per willful violation of KRS Chapter 278 or Commission regulation.


¹³⁰ See *Simpson County Water Dist. v. City of Franklin*, 872 S.W.2d 460, 462 (Ky. 1994).

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the 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 Cumberland District are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Cumberland District on or after the date of service of this Order.
4. Within 20 days of the date of service of this Order, Cumberland 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. Cumberland District's request to amend its unaccounted-for water loss surcharge is denied.
6. An investigation shall be initiated to determine whether Albany violated 278.160(2), should be assessed a civil penalty pursuant to KRS 278.990(1), and should be required to issue a refund to Cumberland District for violation of KRS 278.160(2).
7. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00226 DATED DEC 23 2025

* Denotes Rounding

Nonrecurring Charges Adjustments

Field Collection Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor	\$ -	\$	-
Office Supplies	\$ 1.58	\$	1.58
Office Labor	\$ -	\$	-
Transportation	\$ 18.42	\$	18.42
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 20.00	\$	20.00
Current Rate	\$ 18.00		

Meter Relocation Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor	\$ -	\$	-
Office Supplies	\$ -	\$	-
Office Labor	\$ -	\$	-
Transportation	\$ -	\$	-
Misc.	\$ -	\$	-
Total Revised Charge*	\$ -	\$	-
Current Rate	Actual Cost	Actual Cost	

Meter Re-Read Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor	\$ -	\$	-
Office Supplies	\$ 1.58	\$	1.58
Office Labor	\$ -	\$	-
Transportation	\$ 18.42	\$	18.42
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 20.00	\$	20.00
Current Rate	\$ 18.00		

	Meter Test Charge	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ 1.58	\$ 1.58
Office Labor	\$ -	\$ -
Transportation	\$ 18.42	\$ 18.42
Misc.	\$ -	\$ -
Total Revised Charge*	<u>\$ 20.00</u>	<u>\$ 20.00</u>
Current Rate	\$ 18.00	
	New Service Charge	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ 1.58	\$ 1.58
Office Labor	\$ -	\$ -
Transportation	\$ 18.42	\$ 18.42
Misc.	\$ -	\$ -
Total Revised Charge*	<u>\$ 20.00</u>	<u>\$ 20.00</u>
Current Rate	\$ 18.00	
	Reconnection Charge	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ 3.16	\$ 3.16
Office Labor	\$ -	\$ -
Transportation	\$ 36.84	\$ 36.84
Misc.	\$ -	\$ -
Total Revised Charge*	<u>\$ 40.00</u>	<u>\$ 40.00</u>
Current Rate	\$ 36.00	
	Returned Check Charge	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ 1.58	\$ 1.58
Office Labor	\$ -	\$ -
Transportation	\$ 18.42	\$ 18.42
Misc. (Bank Charges)	\$ 5.00	\$ 5.00
Total Revised Charge*	<u>\$ 25.00</u>	<u>\$ 25.00</u>
Current Rate	\$ 8.50	

Service Call / Investigation			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ -	\$ -	
Office Supplies	\$ 1.58	\$ 1.58	
Office Labor	\$ -	\$ -	
Transportation	\$ 18.42	\$ 18.42	
Misc.	\$ -	\$ -	
Total Revised Charge*	<u>\$ 20.00</u>	<u>\$ 20.00</u>	
Current Rate	\$ 18.00		

After Hours Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor (2 Hours at \$20/hour x 1.5 Rate of Pay)	\$ 60.00	\$ 60.00	
Office Supplies	\$ 1.58	\$ 1.58	
Office Labor	\$ -	\$ -	
Transportation	\$ 18.42	\$ 18.42	
Misc.	\$ -	\$ -	
Total Revised Charge*	<u>\$ 80.00</u>	<u>\$ 80.00</u>	
Current Rate	\$ 50.00		

5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge			
	Utility Revised Charge	Staff Revised Charge	
Materials Expense	\$ 876.05	\$ 876.05	
Service Pipe Expense	\$ 33.75	\$ 33.75	
Installation Labor Expense	\$ 150.00	\$ 150.00	
Installation Equipment Expense	\$ 312.50	\$ 312.50	
Installation Miscellaneous Expense	\$ 259.00	\$ 259.00	
Overhead Expense	\$ -	\$ -	
Administrative Expense	\$ 20.00	\$ 20.00	
Total Revised Charge*	<u>\$ 1,651.30</u>	<u>\$ 1,652.00</u>	
Current Rate	\$ 1,300.00		

1 Inch Meter Connection/Tap-On Charge			
	Utility Revised Charge	Staff Revised Charge	
Materials Expense	\$ 1,374.32	\$ 1,374.32	
Service Pipe Expense	\$ 56.25	\$ 56.25	
Installation Labor Expense	\$ 150.00	\$ 150.00	
Installation Equipment Expense	\$ 312.50	\$ 312.50	
Installation Miscellaneous Expense	\$ 259.00	\$ 259.00	
Overhead Expense	\$ -	\$ -	
Administrative Expense	\$ 20.00	\$ 20.00	
Total Revised Charge*	<u>\$ 2,172.07</u>	<u>\$ 2,173.00</u>	
Current Rate	\$ 1,425.00		

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00226 DATED DEC 23 2025

The following rates and charges are prescribed for the customers in the area served by Cumberland 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

5/8- x 3/4-Inch Meter

First 2,000 Gallons	\$ 39.82	Minimum Bill
Next 3,000 Gallons	0.01104	Per Gallon
Next 5,000 Gallons	0.00976	Per Gallon
Over 10,000 Gallons	0.00845	Per Gallon

1-Inch Meter

First 5,000 Gallons	\$ 73.32	Minimum Bill
Next 5,000 Gallons	0.00976	Per Gallon
Over 10,000 Gallons	0.00845	Per Gallon

1 1/2-Inch Meter

First 12,500 Gallons	\$ 142.79	Minimum Bill
Over 12,500 Gallons	0.00845	Per Gallon

2-Inch Meter

First 25,000 Gallons	\$ 248.46	Minimum Bill
Over 25,000 Gallons	0.00845	Per Gallon

Dale Hollow State Park

First 300,000 Gallons	\$2,573.22	Minimum Bill
Over 300,000 Gallons	0.00845	Per Gallon

Charge	Revised Charge
Field Collection Charge	\$ 20.00
Meter Relocation Charge	Actual Cost
Meter Re-Read Charge	\$ 20.00
Meter Test Charge	\$ 20.00
New Service Charge	\$ 20.00
Reconnection Charge	\$ 40.00
Returned Check Charge	\$ 25.00
Service Call / Investigation	\$ 20.00
After Hours Charge	\$ 80.00

Meter Connection/Tap-On Charges

5/8 Inch X 3/4 Inch Meter	\$ 1,652.00
1 Inch Meter	\$ 2,173.00

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Straightline Kentucky LLC
113 North Birchwood Ave.
Louisville, KY 40206

*Cumberland County Water District
133 Lower River Street
Burkesville, KY 42717-9622

*Troy Norris
Cumberland County Water District
133 Lower River Street
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