

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WARREN)	
COUNTY WATER DISTRICT FOR AN)	CASE NO.
ADJUSTMENT OF RATES FOR SEWER)	2024-00201
SERVICE)	

ORDER

On July 31, 2024, Warren County Water District's Sewer Division (Warren District) filed its application for an adjustment of its sewer rates based on a historical test period. The application proposed that new rates become effective on August 31, 2024. By Order entered on August 15, 2024, the Commission suspended the effective date of the proposed rates for five months, up to and including January 31, 2025, and established a procedural schedule.¹ During this proceeding, Warren District responded to five rounds of discovery.² By Order issued November 21, 2024, the Commission granted Warren District's motion for this matter to proceed without a formal hearing.³

There are no intervenors in this proceeding. On December 30, 2024, Warren District filed a notice of filing of supplement to application Exhibit 8, a supplement to the

¹ Order (Ky. PSC Aug. 15, 2024).

² Warren District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Aug. 14, 2024); Warren District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Sept. 13, 2024); Warren District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Oct. 11, 2024); Warren District's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request) (filed Nov. 14, 2024); Warren District's Response to Commission Staff's Fifth Request for Information (Staff's Fifth Request) (filed Dec. 12, 2024).

³ Order (Ky. PSC Nov. 21, 2024).

Statement of Adjustments Operations (SAO) (Supplemental SAO). Warren District further filed a brief on March 31, 2025, which included an additional Supplement to the SAO (Second Supplemental SAO).⁴ This matter now stands submitted for decision.

BACKGROUND

Warren District provides water and sewer service in Warren County, Kentucky, and, by contract, manages and operates the Butler County Water System (Butler Water) and Simpson County Water District (Simpson District) under a Joint Operations Agreement.⁵ Warren District is the lead water system, and all five of its employees work for Warren District.⁶ Each utility system, including the Warren Water Division and the Warren Sewer Division, are charged the actual cost for labor, equipment, materials, and all other costs incurred by each respective utility system.⁷

In its application, Warren District proposed a total revenue requirement for its sewer operations of \$7,533,181 and a revenue requirement from sewer collection sales of \$6,997,018, requiring an increase in revenues from sewer collection sales of \$852,763 or 13.88 percent.⁸ In its Supplemental Schedule of Adjusted Operations (SAO), Warren District made additional adjustments to test period expenses and to debt service costs that reduced the District's total revenue requirement to \$7,454,846 and its revenue

⁴ Warren District's Brief (filed Mar. 31, 2025), Appendix.

⁵ Application at 3, paragraph 5.

⁶ Application, Exhibit 8b, Written Testimony of Jacob Cuarta at 4.

⁷ Application, Exhibit 8b, Written Testimony of Jacob Cuarta at 4.

⁸ Warren District's Brief at 8.

requirement from sewer sales to \$6,918,683, requiring an increase in revenues from sewer collection sales of \$774,427 or 12.60 percent.⁹

LEGAL STANDARD

Pursuant to KRS 278.030(1), the Commission's statutory obligation when reviewing a rate application is to determine whether the proposed rates are "fair, just and reasonable."¹⁰ Warren District bears the burden of proof to show that the proposed rates are fair, just, and reasonable under the requirements of KRS 278.190(3).

TEST PERIOD

Warren District proposed, and the Commission accepts, a historical 12-month period ended December 31, 2023, as the test period to determine the reasonableness of its proposed rates.¹¹ Warren District proposed pro forma adjustments, which are discussed below.

REVENUE REQUIREMENT

Billing Analysis. Warren District did not propose an adjustment to test period revenues from sewer sales as it claimed there were no known and measurable changes to metered revenues when the billing analysis was performed.¹² However, Warren District provided a billing analysis showing the gallons of water billed to its retail customers during the test year that did not match the test year amount.¹³ Applying the sewer service rates that were in effect during the test year to the sewer sales shown in the billing analysis,

⁹ Warren District's Brief at 8.

¹⁰ KRS 278.030; *Pub. Serv. Comm'n v. Com. Ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

¹¹ Application at 4, Paragraph 7.

¹² Warren District's Response to Staff's Second Request, Item 10.

¹³ Application, Exhibit 9, Existing Billing Analysis.

the Commission calculated that an increase of \$75,023 was needed to adjust the test-year metered retail sales to the amount calculated by the billing analysis, resulting in pro forma retail revenues of \$6,219,279.

The Commission finds adjusting metered sewer sales of \$75,023 to reflect the difference between the billing analysis and test-year metered sales is appropriate. The billing analysis represents actual metered gallons sold to customers at current tariff rates. This is a known and measurable adjustment that is made to normalize the revenue from the test year to the amount calculated by the billing analysis.

Interest Income. In its application, Warren District included Interest Income in its Operating Revenues, as a component of Other Revenues, in the amount \$432,358.¹⁴ The Commission finds that moving Interest Income from the Operating Revenues and placing it in the non-operating revenues is necessary. This move is consistent with Uniform System of Accounts (USoA) in which Interest and Dividend Income is included with Non-Operating Revenues.¹⁵ The Commission notes that Interest Income will still be included in the revenue requirement calculation but not included in the Net Income calculation.

Miscellaneous Service Revenues. As discussed below in the section on Nonrecurring Charges, Warren District personnel are already compensated for labor performed during normal business hours; as such, estimated labor costs performed during normal business hours and included in the cost justification for Nonrecurring

¹⁴ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations.

¹⁵ USoA, Other Income and Deductions, Account 419. Interest and Dividend Income.

Charges is akin to a double recovery and should be eliminated. The labor performed during regular business hours is already recovered as a part of the revenue requirement in salaries and wages. Warren District reported \$33,870 in Miscellaneous Service Revenues in the test year.¹⁶ Warren District's Miscellaneous Service Revenues included \$12,350 in labor costs incurred during normal working hours for Nonrecurring Charges.¹⁷

The Commission finds removing \$12,350 from Miscellaneous Service Revenues to be reasonable and consistent with Commission precedent in removing labor costs from Nonrecurring Charges.¹⁸

Description	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Service Connection Charge	2,231	\$25.00	\$8.00	(\$9,110)	\$17,848
Service Connection Charge (After Hours)	7	\$65.00	\$57.00	237	399
Delinquent Service Charge	0	\$25.00	\$6.00	0	0
Delinquent Service to Reconnect	0	\$50.00	\$14.00	0	0
Delinquent Service to Reconnect (After Hours)	0	\$90.00	\$63.00	0	0
Meter Reading Recheck	0	\$25.00	\$8.00	0	0
Service Investigation Charge	272	\$25.00	\$12.00	(3,411)	3,264
Service Investigation Charge (After Hours)	0	\$65.00	\$104.00	0	0
Meter Investigation Charge	1	\$75.00	\$9.00	(66)	9
Returned Check Charge	0	\$25.00	\$12.00	0	0
Service Line Inspection Charge	0	\$50.00	\$12.00	0	0
Pro Forma Test Year NRC Revenue				<u>(\$12,350)</u>	21,520
Less: Test Year NRC Revenue ()					(33,870)
Adjustment					<u>(\$12,350)</u>

Salaries and Wages – Employees, Cost of Living Adjustment. Warren District proposed an increase of \$10,292, to account for a 3.241 percent cost-of-living adjustment

¹⁶ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations; Second Supplemental SAO.

¹⁷ Warren District's Response to Staff's First Request, Items 36 and 37.

¹⁸ 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).

(COLA) that took effect on January 1, 2024.¹⁹ Warren District’s employees receive a COLA increase annually.²⁰ In Warren District’s Brief, it supported the COLA adjustment by referring to its Operating Policy that requires annual cost-of-living adjustments based upon changes in the Consumer Price Index-Urban Consumers (CPI-U) for the 12-month period ending October 31.²¹ The COLA provided to district employees reflected the increase in consumer prices according to the CPI-U for the 12-month period ending October 31, 2023.²² Warren District stated that “the use of the CPI-U to adjust salaries and wages for inflation is a common practice among businesses and is consistent with the Commission’s statements that utilities should use a “relevant inflation index” to adjust wages and salaries for the effects of inflation.”²³ Warren District determined this amount by multiplying the test year Salaries and Wages Expense of \$317,554 by the implemented 3.241 percent COLA amount.²⁴

COLA Salaries and Wages:	Amount
Test Year Salaries and Wages	\$ 317,554
Times: 2024 COLA adjustment	3.241%
Total - COLA Salaries and Wages	<u>\$ 10,292</u>

¹⁹ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Adjustment A; Second Supplemental SAO.

²⁰ Warren District’s Response to Staff’s First Request, Item 23.

²¹ Warren District’s Brief at 11, Item A.

²² See Bureau of Labor Statistics, Economic News Release, “Consumer Price Index – October 2023” (Nov. 14, 2023), available at https://www.bls.gov/news.release/archives/cpi_11142023.htm (last visited Mar. 23, 2025).

²³ Warren District’s Brief at 11, Item A.

²⁴ Warren District’s Response to Staff’s Third Request, Item 1. 03_Exhibit_3-1.xlsx, COLA Tab, Cells B9.

The Commission finds that the increase to Salaries and Wages – Employees by \$10,292 is reasonable and should be approved as Warren District has implemented the increase to Salaries and Wages, thus the increases are known and measurable. However, Warren District is on notice that the Commission has repeatedly rejected the use of a CPI as metric for projecting appropriate increases for expenses in most cases. In future rate cases, Warren District should provide an explanation for its choice of CPI-U over other methods of determining and implementing employee wages increases.

Salaries and Wages – Employees, Merit Raise. Warren District proposed an increase of \$6,351, to account for an average merit increase of 2 percent to employees' salaries beginning on January 1, 2024.²⁵ In its brief, Warren District stated, “[t]he Commission has found that merit-based salary and wages increases are reasonable when based upon ‘a performance-based metric.’” Warren District further stated the wage and salary increase at issue are performance driven. Warren District’s Employee Handbook provides:

All employees shall have a performance evaluation annually. Merit increases in compensation will normally range from 0 to 4 percent and will be based on employee performance provided the employee’s compensation has not exceeded the position pay range. All salary increases must be approved by the General Manager. Each department manager is responsible for evaluating his employees’ job performance and determining appropriate merit increases, if any, based on established performance criteria. No employee is guaranteed a merit increase.²⁶

²⁵ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference A.

²⁶ Warren District’s Brief at 12.

The Commission has previously addressed merit pay increases during its review of the recent rate adjustment applications of Butler Water and Simpson District and allowed similar adjustments, as proposed by Warren District, to test year Salary and Wages – Employees expense to reflect the award of merit pay increases.²⁷ Warren District determined this amount by multiplying the test year Salaries and Wages Expense of \$317,554 by the budgeted 2 percent merit increase.²⁸

Merit - Salaries and Wages:	Amount
Test Year Salaries and Wages	\$ 317,554
Times: 2024 Budgeted Merit adjustment	2.00%
Total Merit - Salaries and Wages	<u>\$ 6,351</u>

The Commission finds that the increase to Salaries and Wages – Employees by \$6,351 is reasonable and should be accepted, because it is based on known and measurable changes to Salaries and Wages based on the merit calculations provided by Warren District. In addition, the Commission notes that this policy is set out in writing with a procedure to award the raises.

Salaries and Wages - New Employees. In its application, Warren District proposed an increase of \$85,369 to account for new employees not previously accounted for due to their starting date.²⁹ Warren District calculated the adjustment to account for both

²⁷ See Case No. 2024-00061, *Electronic Application of Butler County Water System, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 1, 2024); Case No. 2024-00068, *Electronic Application of Simpson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 29, 2024).

²⁸ Warren District's Response to Staff's Third Request, Item 1, 03_Exhibit_3-1.xlsx, Merit Tab, Cells C10.

²⁹ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference A.

employees hired after the test year as well as Customer Service Representative (CSR) employees originally classified as capitalized labor reclassified as expense labor.³⁰

First, Warren District identified the number of hours not included in the test year, due to the employees hiring date³¹ and the wages for the new employees.³² Then, Warren District determined the percentage of the new employees' salaries that needed to be allocated to the Warren District's Sewer Division (19.4 percent for all but one employee that was allocated at 0 percent).³³ Next, Warren District calculated how much of the allocated Sewer Division Salaries was expensed as labor instead of capitalized labor.³⁴ Then, Warren District increased the resulting labor expenses by 5 percent to account for the COLA and Merit increases the employees will receive starting January 1, 2024.³⁵ As a result, Warren District calculated \$44,597 should be added to Salaries and Wages – Employees.³⁶

Warren District followed the same process to determine the amount of expenses to add for the CSR employees reclassified as expensed labor instead of capitalized labor.

³⁰ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, Proforma Tab, Cells G10 and G11.

³¹ Warren District's Response to Staff's Third Request, Item 1, 03_Exhibit_3-1.xlsx, New Employees Tab, Cells D29 through D37.

³² Warren District's Response to Staff's Third Request, Item 1, 03_Exhibit_3-1.xlsx, New Employees Tab, Cells E29 through E37.

³³ Warren District's Response to Staff's Third Request, Item 1, 03_Exhibit_3-1.xlsx, New Employees Tab, Cells H29 through H37.

³⁴ Warren District's Response to Staff's Third Request, Item 1, 03_Exhibit_3-1.xlsx, New Employees Tab, Cells J29 through J37.

³⁵ Warren District's Response to Staff's Third Request, Item 1, 03_Exhibit_3-1.xlsx, New Employees Tab, Cells K29 through K37.

³⁶ Warren District's Response to Staff's Third Request, Item 1, 03_Exhibit_3-1.xlsx, New Employees Tab, Cell L38.

Warren District used these allocated amounts to calculate an increase of \$39,323 to Employee Salaries and Wages – Employees.³⁷

In Warren District's brief, it proposed to increase the Salaries and Wages expense by \$83,920, rather than the originally proposed \$85,369, to account for the reclassification of Capitalized Labor and new positions added since the test year.³⁸ The Commission agrees with Warren District's calculation methodology. The Commission reviewed the calculations provided by Warren District and finds an increase of \$83,920, is reasonable and agrees it should be accepted, as shown in the following table.

Description	Amount
Reclassification of Capitalized Labor	\$ 39,323
Positions Added Since Beginning of Test Year	44,597
Total Additional Employee Expense	<u>\$ 83,920</u>

Employee Overhead – Reclassify Payroll Taxes. Warren District proposed a decrease of \$27,368 to account for a reclassification of Payroll taxes from Employee Overhead.³⁹ Warren District proposed a separate adjustment to account for the revised Payroll taxes inclusion to Taxes other than Income.⁴⁰ This move is consistent with the USoA in which Payroll Taxes are included with Taxes Other Than Income.⁴¹

³⁷ Warren District's Response to Staff's Third Request, Item 1, 03_Exhibit_3-1.xlsx, CSRs Tab, Cell K17.

³⁸ Warren District's Brief at 9, Item A. Salaries and Wages – Employees; Second Supplemental SAO.

³⁹ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference B; Second Supplemental SAO.

⁴⁰ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference H.

⁴¹ USoA, at 107 – 108, Account 408, Taxes Other Than Income, Sub-Account 408.12 Payroll Taxes.

The Commission finds that Warren District's adjustment is reasonable and should be accepted. Warren District's Employee Overhead should be reduced by \$27,368 to reflect the reclassification of Payroll Taxes into the correct expense category in accordance with the USoA.

Employee Overhead – Benefit Wages. Warren District proposed an increase of \$12,746 to account for an increase for employees whose wages were capitalized and are now expensed.⁴²

Warren District allocates its employee salaries between Warren District Water, Warren District Sewer, Butler Water, and Simpson District in accordance with the Joint Operations Agreement.⁴³ Warren District records non-hours worked yet still paid, such as annual leave, sick leave, and holidays, birthdays, and United Way Holidays, as part of employee overhead and allocated each amount accordingly.⁴⁴ In addition, Warren District calculated Overhead expense was equivalent to 59.04 percent of Salaries and Wage Base.⁴⁵

First, Warren District calculated that benefit wages accounted for 27.01 percent of the test-year Total Employee Overhead expense.⁴⁶ Warren District determined how much of the new employees' salaries were allocated to the Sewer Division (19.4 percent).

⁴² Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference B; Second Supplemental SAO.

⁴³ Application, Exhibit 8b, Written Testimony of Jacob Cuarta, Appendix C, Joint Operations Agreement.

⁴⁴ Warren District's Response to Staff's Third Request, Item 4a.

⁴⁵ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, Employee Overhead Tab, Cell B25.

⁴⁶ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, Employee Overhead Tab, Cell D13.

Warren District calculated how much of the allocated Sewer Division Salaries were expensed labor instead of capitalized labor.⁴⁷ Using the allocated wages, Warren District then used the 59.04 overhead percentage to determine how much to expense to total overhead.⁴⁸ Using the 27.01 percent benefits wages of Total Employee Overhead, Warren District calculated the percentage of the overall overhead amount that should be added to Benefits Wages, in the amount \$6,774.⁴⁹

Warren District followed the same process to determine the amount of expenses to add for the CSR employees reclassified as expensed labor instead of capitalized. Warren District calculated \$5,973 should be added to Employee Overhead.⁵⁰ Therefore, it used these calculated allocation factors to determine the amount the Benefit Wages increased for the new employees and CSR added or reclassified post-test year to be \$12,746.⁵¹

The Commission finds that Warren District's adjustment to increase Employee Overhead by \$12,746 is reasonable and should be accepted, based on the calculations provided by Warren District, since the increase is a direct result of the change in Salaries and Wages – Employees discussed above.

⁴⁷ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, New Employees Tab, Cells H29 through H37.

⁴⁸ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, New Employees Tab, Cells F46 through F54.

⁴⁹ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, New Employees Tab, Cells H46 through H54.

⁵⁰ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, CSR Tab, Cell H23.

⁵¹ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, Employee Overhead Tab, Cell F51.

Employee Overhead – Workers’ Compensation. Warren District proposed an increase of \$467 to account for an increase to Workers’ Compensation.⁵² Warren District calculated that Workers Compensation accounted for 0.99 percent of the test-year Overhead expense.⁵³ Warren District followed the same steps as the Benefit Wages adjustment. Warren District used these calculated allocation factors to determine the amount the Benefit Wages increased for the new employees in the amount of \$248⁵⁴ and CSR added or reclassified post-test year in the amount of \$219.⁵⁵ Therefore, the total amount of the Workers’ Compensation is increased by \$467.⁵⁶

The Commission finds that Warren District’s adjustment to increase Employee Overhead by \$467 is reasonable and should be accepted, based on the calculations provided by Warren District, since the increase to overhead expenses is a direct result of the change in Salaries and Wages – Employees discussed above.

Employee Overhead – Fringe Benefits – Insurance. Warren District proposed an increase of \$10,083 to account for an increase in Fringe Benefits - Insurance.⁵⁷ Warren District calculated that Fringe Benefits accounted for 21.37 percent of the test-year

⁵² Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Adjustment B; Second Supplemental SAO.

⁵³ Warren District’s Response to Staff’s Third Request, Item 1. 03_Exhibit_3-1.xlsx, Employee Overhead Tab, Cell D14.

⁵⁴ Warren District’s Response to Staff’s Third Request, Item 1. 03_Exhibit_3-1.xlsx, New Employees Tab, Cell I55.

⁵⁵ Warren District’s Response to Staff’s Third Request, Item 1. 03_Exhibit_3-1.xlsx, CSR Tab, Cell I25.

⁵⁶ Warren District’s Response to Staff’s Third Request, Item 1. 03_Exhibit_3-1.xlsx, Employee Overhead Tab, Cell H51.

⁵⁷ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference B; Second Supplemental SAO.

Overhead expense.⁵⁸ Warren District followed the same steps as the Benefit Wages adjustment. Warren District used these calculated allocation factors to determine the amount Fringe Benefits – Insurance increased for the new employees in the amount \$5,358,⁵⁹ and CSRs added or reclassified post-test year in the amount \$4,725.⁶⁰ Therefore, it used these calculated allocation factors to determine the amount the Fringe Benefits – Insurance increased for the new employees and CSRs added or reclassified post-test year in the amount \$10,083.⁶¹

The Commission finds that Warren District's adjustment to increase Employee Overhead by \$10,083 is reasonable and should be accepted, based on the calculations provided by Warren District, since the increase to overhead expenses is a direct result of the change in Salaries and Wages – Employees discussed above.

Employee Overhead – Fringe Benefits. Warren District proposed a pro forma insurance expense of \$10,083 that reflects the District's contribution of 70 percent of the cost of an employee's health insurance coverage regardless of an employee having a single or family plan.⁶² This contribution rate slightly exceeds national average for private sector employers for family plans as found by the most recent survey of United States

⁵⁸ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, Employee Overhead Tab, Cell D19.

⁵⁹ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, New Employees Tab, Cell J55.

⁶⁰ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, CSR Tab, Cell J25.

⁶¹ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, Employee Overhead Tab, Cell J51.

⁶² Warren District's Brief at 14, Item B.

Bureau of Labor Statistics (BLS).⁶³ That survey found the average private sector employer contribution rate of 80 percent for single employee coverage and 68 percent for family coverage.⁶⁴ Warren District stated that to the extent that the District's contribution may slightly exceed the reported national average, no disallowance of the pro forma expense is required.⁶⁵ Warren District stated that contributing 70 percent of the cost of an employee's health insurance cost has been in effect for 25 years and strikes a balance between providing comprehensive employee benefits while managing operational costs effectively.⁶⁶ Warren District stated that this amount ensures that Warren District can allocate resources across various operational needs while still offering competitive benefits to attract and retain competent and qualified employees.⁶⁷ Warren District cited to Commission precedent which stated that "the Commission held that "as long as the employee contribution rate for health insurance is at least 12 percent, it [the Commission] will not make a further adjustment to the national average."⁶⁸

The Commission finds that, in this instance, Warren District's contribution of 70 percent to an employee's health insurance coverage is reasonable and should be accepted. However, the Commission notes that it does not have a bright line rule regarding employer contribution, and instead looks at each utility's circumstances as to whether the contribution is reasonable. The Commission accepts Warren District's

⁶³ Warren District's Brief at 14, Item B.

⁶⁴ Warren District's Brief at 14, Item B.

⁶⁵ Warren District's Brief at 14 – 15, Item B.

⁶⁶ Warren District's Brief at 16, Item B.

⁶⁷ Warren District's Brief at 15, Item B.

⁶⁸ Warren District's Brief at 16, Item B.

explanation that this contribution strikes a balance between providing comprehensive employee benefits while managing operational costs effectively is a sufficient explanation.

Employee Overhead – Retirement. Warren District proposed an increase of \$16,702 to account for an increase to Retirement Expenses.⁶⁹ Warren District calculated that Retirement expense accounted for 35.40 percent of the test year Overhead expense.⁷⁰ Warren District followed the same steps as the Benefit Wages adjustment. Using the calculated allocation factors, Warren District determined the amount the Retirement Expense increased for the new employees was \$8,876⁷¹ and CSRs added or reclassified post-test year would be \$7,286.⁷² Therefore, these calculated allocation factors were used to determine the amount Retirement Expenses increased for the new employees and CSRs added or reclassified post-test year to be \$16,702.⁷³

The Commission finds that Warren District's adjustment to increase Employee Overhead by \$16,702 is reasonable and should be accepted because, based on the calculations provided by Warren District, the increase to overhead expenses is a direct result of the change in Salaries and Wages – Employees discussed above.

⁶⁹ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference B; Second Supplemental SAO.

⁷⁰ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, Employee Overhead, Cell D21.

⁷¹ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, New Employees Tab, Cell K55.

⁷² Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, CSR Tab, Cell K25.

⁷³ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, Employee Overhead Tab, Cell L51.

Employee Overhead – COLA. Warren District proposed an increase of \$4,578 to account for the 3.241 percent COLA wage increase that took effect on January 1, 2024 and was discussed above.⁷⁴ This proposed adjustment is to account for the overhead expense incurred as a result of the test year employees receiving the COLA.⁷⁵ The Employee Overhead expense is proportional to the Employee Salaries and Wages Expense; therefore, both accounts should grow at a proportional amount based upon the Employee Overhead rate, which is applied to wages and allows for the recovery of overhead expenses.⁷⁶ Warren District increased all the overhead subaccounts by 3.241 percent⁷⁷ since these are all expenses that are tied to the amount the employees are paid and should be affected by the COLA year over year.

The Commission finds that Warren District's adjustment to increase Employee Overhead by \$4,578 is reasonable and should be accepted because it is a known and measurable adjustment based on the calculations provided by Warren District. The increase in overhead expenses is a direct result of the change in Salaries and Wages – Employees discussed above. In addition, the Commission notes that the CPI-U adjustment was discussed above, and the Commission reiterates that it expects Warren District to justify its use of the CPI-U in its next application for a rate adjustment.

⁷⁴ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference C; Second Supplemental SAO.

⁷⁵ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference C.

⁷⁶ Application, Exhibit 8c, Written Testimony of Jeff Peebles, at 5–6.

⁷⁷ Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, COLA Tab, Cell B22.

Description	Amount
Payroll Taxes	27,368
Benefit Wages	48,522
Worker's Comp	1,779
Insurance	38,385
Retirement	63,585
2023 Base Year Salaries and Wages	\$ 179,639
Less: Insurance	(38,385)
Subtotal	\$ 141,255
2024 COLA	3.241%
Total - COLA Employee Overhead	\$ 4,578

Employee Overhead – Merit. Warren District proposed an increase of \$2,825, to account for a 2 percent merit, increase in all employees' salaries.⁷⁸ At its November 29, 2023 board meeting the Warren District's board of commissioners approved a 2 percent merit increase in all employees' salaries to begin on January 1, 2024.⁷⁹ In Warren District's brief, Warren District stated as the employee benefits are tied to the level of employee salaries and wages, the District has further proposed to adjust Employee Overhead to reflect the increase in employee salaries and wages due to the COLA and merit pay increases that took effect on January 1, 2024.⁸⁰ The Employee Overhead Expense is proportional to the Employee Salaries and Wages Expense; therefore, both accounts should grow at a proportional amount based upon the Employee overhead rate which is applied to wages and allows for the recovery of overhead expenses.⁸¹ Warren

⁷⁸ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference C.

⁷⁹ Warren District's Response to Staff's Second Request, Item 6.

⁸⁰ Warren District's Brief at 14, Item A.

⁸¹ Application, Exhibit 8c, Written Testimony of Jeff Peeples, at 5–6.

District calculated the increase by multiplying Payroll Taxes, Benefit Wages, Workers Compensation, and Retirement by 2 percent; however, it did not include Fringe Benefits – Insurance in the calculation,⁸² since insurance expense is a set amount from the provider and does not get affected by any merit increase paid to the employees, as shown in the table below.

Description	Amount
Payroll Taxes	\$ 27,368
Benefit Wages	48,522
Worker's Comp	1,779
Retirement	63,585
	<hr/> 141,255
2024 Merits	2.00%
Total Merit - Employee Overhead	<hr/> \$ 2,825 <hr/>

The Commission finds that Warren District's adjustment to increase Employee Overhead by \$2,825 is reasonable and should be accepted because it is a known and measurable adjustment based on the calculations provided by Warren District, since the increase to overhead expenses is a direct result of the change in Salaries and Wages – Employees discussed above.

Contractual Services Legal and Contractual Services Other. In its application, Warren District proposed to include \$5,136 in Contractual Services – Legal and \$226,678 in Contractual Services – Other in operating expense.⁸³ In response to Commission Staff's Second Request, Warren District admitted there was a mistake. A portion of an

⁸² Warren District's Response to Staff's Third Request, Item 1. 03_Exhibit_3-1.xlsx, COLA Tab, Cell B23.

⁸³ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculation.

invoice included in Contractual Services – Other when it should have instead been reported in Contractual Services – Legal.⁸⁴ Warren District’s test-year reported Contractual Services – Other inadvertently included invoice 1018510 for \$108 instead of its proper inclusion in Contractual Services – Legal. Therefore, Warren District proposed to increase the Contractual Services – Legal expense by \$108 and reduced Contractual Services – Other by \$108, to properly account for expenses in the correct account.⁸⁵ The total combined pro forma of \$231,814 is the same as the test year.

The Commission finds that Warren District’s request is reasonable and should be accepted; therefore, Contractual Services – Legal should be increased by \$108 and Contractual Services – Other should be decreased by \$108 to account for the reclassification of invoice number 1018510.

Miscellaneous Non-Utility Income. Warren District proposed an increase of \$4 to Miscellaneous Non-Utility Income.⁸⁶ Warren District stated the \$4 represents proceeds from vendor payment discounts and are unknown for future years, therefore, the amount received in the test year was removed from the pro forma calculation.⁸⁷

The Commission finds that Warren District’s proposed adjustment is reasonable and should be accepted because the vendor payment discounts are unknown and may not recur in future years. Unusual transactions not expected to reoccur are not indicative

⁸⁴ Warren District’s Response to Staff’s Second Request, Item 4.

⁸⁵ Supplement SAO at 1–2, Item 1; Second Supplemental SAO.

⁸⁶ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, unnumbered adjustment; Second Supplemental SAO.

⁸⁷ Warren District’s response to Staff’s Third Request, Item 3.

of standard utility operations and, therefore, should not be included in the pro forma revenue requirement calculation.

Unrealized Gain/Loss on Investment. Warren District recorded \$39,712 as part of unrealized gain on Investments in Operation and Maintenance Expenses during the test year.⁸⁸ On Warren District's monthly financial statements, Unrealized (Gain)/Loss on investments is included in Other Expenses. Likewise, Warren District's audit report and annual report filed with the Commission include Unrealized (Gain)/Loss on Investments in Non-Operating Expenses and Other Income & Deductions, respectively. In the Application, Warren District included \$39,712 worth of Unrealized (Gain)/Loss on Investments in the Operations and Maintenance Expense, which is inconsistent with Warren District's monthly financial statements.⁸⁹

The Commission finds that reducing the unrealized gain on investments by \$39,712, making the pro forma amount \$0, is reasonable and should be accepted. Unrealized gains are not a component of operating expenses, and they do not benefit or detriment Warren District's Operations. In addition, in its financial records, Warren District does not include Unrealized (Gain)/Loss on Investments in the Operations and Maintenance Expense category.

Amortization Expense – Rate Case Expense. Warren District originally proposed an increase of \$43,724 to account for including Rate Case expense amortized over a three-year period.⁹⁰ However, Warren District included this increase in the Revenue

⁸⁸ Warren District's response to Staff's Fifth Request, Item 1b.

⁸⁹ Warren District's Response to Staff's Fifth Request, Item 1b.

⁹⁰ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference K.

Requirement calculation instead of the Pro Forma Operating Expense Calculation.⁹¹ Warren District explained that it did not include Rate Case Expense as part of Total Operation and Maintenance Expense since no rate case expenses were incurred in the test year.⁹² Instead, Warren District stated that the estimated legal, engineering, and publication costs of \$43,724 were reported separately in the Revenue Requirements section of the SAO.⁹³ In its brief, Warren District proposed to adjust the Rate Case Expense adjustment based upon its final report,⁹⁴ which reflects total rate case expense of \$144,726. Warren District requested that annual recovery of \$48,242 be permitted through the authorized rates.⁹⁵ Warren District filed its final report of rate case expense,⁹⁶ which increased the total rate case to \$147,487 or \$49,162 annually.

The Commission finds that a three-year amortization of Warren District's rate case expense is reasonable and should be accepted, as this is the amount of time, barring unusual circumstances, when Warren District should, or is expected to file a new rate case.⁹⁷ Furthermore, the Commission finds that the rate case expenses were improperly classified and should be moved to operation and maintenance expenses. This move is

⁹¹ Application, Exhibit 11, Revenue Requirements Chart.

⁹² Warren District's Response to Staff's Fifth Request, Item 1c.

⁹³ Warren District's Response to Staff's Fifth Request, Item 1c.

⁹⁴ Warren District's Seventh Supplemental Response to Staff's First Request, Item 14d, *Seventh_Supp_Response_Staffs_First_1-14d_Sewer.pdf*, (filed Mar. 28, 2025).

⁹⁵ Warren District's Brief at 20 – 21, Item G; Second Supplemental SAO.

⁹⁶ Final Report Rate Case Expenses Warren Sewer (filed Apr. 29, 2025).

⁹⁷ Case No. 2023-00191, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates, a Certificate of Public Convenience and Necessity for Installation of Advanced Metering Infrastructure, Approval of Regulatory and Accounting Treatments, and Tariff Revisions*, (Ky. PSC May 3, 2024), Order at 23 (Note that a Rehearing Order was entered in this case on Nov. 6, 2024 but was unrelated to amortization of rate case expense).

consistent with the USoA, in which Amortization of Rate Case Expense is included with water operations and maintenance accounts. Therefore, the Commission finds an adjustment to increase Amortization Expense of \$49,162, as shown in the following table, is reasonable.

Description	Amount
Accounting	-
Engineering	\$ 47,042
Legal	93,617
Consultants	1,125
Other Expenses	5,703
Total	147,487
Amortization Years	3
Annual Rate Case Expense	<u>\$ 49,162</u>

Depreciation Expense – Development Structures. Warren District proposed an increase of \$7,433, to account for new projects that will add to Depreciation Expense.⁹⁸ Warren District confirmed all the development structures projects were completed between August 2023 and May 2024.⁹⁹

The Commission finds that the inclusion of development structures projects in the revenue requirement is reasonable and should be accepted because all of the structures were completed and placed into service after the test year, but all the amounts are known and measurable. Therefore, Warren District should be allowed to begin recovery of the costs. However, Warren District provided the calculations used to determine the adjustment, which showed that Warren District was using a partial year amount for the

⁹⁸ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference E.

⁹⁹ Warren District's Response to Staff's Fifth Request, Item 2.

proposed adjustment.¹⁰⁰ Warren District calculated that it added \$446,000 worth of capital assets for the Structure Development project.¹⁰¹ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the National Association of Regulatory Utility Commissioners (NARUC) study titled *Depreciation Practices for Small Water Utilities* (NARUC Study) published in 1979. Although this is a general rate case pursuant to 807 KAR Section 16, Warren District is a water utility and tried to minimize its expenses in this matter. Warren District did not engage a depreciation consultant for a full depreciation study but instead relied on the NARUC study, a depreciation study already recognized by the Commission as acceptable for depreciation calculations.

When no evidence exists to support a specific life outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Therefore, by annualizing depreciation over 37.5 years to align with the NARUC Studies proposed service lives for Structures, the Commission finds an adjustment to increase Depreciation Expense of \$11,893, which is \$4,460 more than proposed by Warren District, as shown in the following table, is reasonable.

Description	Amount
Capital Assets Added for Structures	\$ 446,000
NARUC Recommend Service Life	37.50
Normalized Depreciation Expense	\$ 11,893
Less: Warren District's Proposed Adjustment ()	(7,433)
Commission Approved Adjustment	<u>\$ 4,460</u>

¹⁰⁰ Warren District's Response to Staff's Second Request, Item 1, 04_Exhibit_2-1_Known_and_Measurables.xlsx, Developments-W Tab, Cells L84 through L100.

¹⁰¹ Warren District's Response to Staff's Second Request, Item 1, 04_Exhibit_2-1_Known_and_Measurables.xlsx, Developments-W Tab, Cells L84 through L100.

Depreciation Expense – Development Mains. Warren District proposed an increase of \$55,216, to account for new projects that will add to Depreciation Expense.¹⁰² Warren District confirmed all the development mains upgrades were completed between August 2023 and May 2024.¹⁰³

The Commission finds that including the Development Main projects in the revenue requirement is reasonable and should be accepted. However, Warren District provided the calculations used to determine the adjustment, which showed that Warren District was using a partial year amount for the proposed adjustment.¹⁰⁴ Warren District calculated that it added \$3,266,810 worth of capital assets for the Main Development project.¹⁰⁵ Therefore, by annualizing depreciation over 62.5 years to align with the NARUC Studies proposed service life for Transmission and Distribution Mains, the Commission finds an adjustment to increase Depreciation Expense of \$52,269, which is \$2,947 less than proposed by Warren District, as shown in the following table, is reasonable.

Description	Amount
Capital Assets Added for Mains	\$3,266,810
NARUC Recommend Service Life	62.50
Normalized Depreciation Expense	\$ 52,269
Less: Warren District's Proposed Adjustment ()	(55,216)
Commission Approved Adjustment	<u>\$ (2,947)</u>

¹⁰² Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference E; Second Supplemental SAO.

¹⁰³ Warren District's Response to Staff's Fifth Request, Item 2.

¹⁰⁴ Warren District's Response to Staff's Second Request, Item 1, 04_Exhibit_2-1_Known_and_Measurables.xlsx, Developments-W Tab, Cells L8 through L83.

¹⁰⁵ Warren District's Response to Staff's Second Request, Item 1, 04_Exhibit_2-1_Known_and_Measurables.xlsx, Developments-W Tab, Cells E8 through E83.

Depreciation Expense – Development Laterals. Warren District proposed an increase of \$37,845, to account for the new projects that will add to Depreciation Expense.¹⁰⁶ However, Warren District provided the calculations used to determine the adjustment, which showed that Warren District was using a partial year amount for the proposed adjustment.¹⁰⁷ Warren District calculated that it added \$1,694,215 worth of capital assets for the Laterals Development project.¹⁰⁸ Therefore, by annualizing depreciation over 37.5 years to align with the NARUC Studies proposed service live for Structures, the Commission finds an adjustment to increase Depreciation Expense of \$45,179, which is \$7,334 more than proposed by Warren District, as shown in the following table, is reasonable and should be accepted.

Description	Amount
Capital Assets Added for Laterals	\$ 1,694,215
NARUC Recommend Service Life	37.50
Normalized Depreciation Expense	\$ 45,179
Less: Warren District's Proposed Adjustment ()	(37,845)
Commission Approved Adjustment	<u>\$ 7,334</u>

Depreciation Expense – SCADA Upgrades. Warren District proposed an increase of \$122,614, to account for an upgrade to Warren District's Billing System.¹⁰⁹ Warren District confirmed the SCADA upgrades were completed September 30, 2024.¹¹⁰ Warren

¹⁰⁶ Second Supplemental SAO.

¹⁰⁷ Warren District's Response to Staff's Second Request, Item 1, 04_Exhibit_2-1_Known_and_Measurables.xlsx, Developments-W Tab, Cells L8 through L83.

¹⁰⁸ Warren District's Response to Staff's Second Request, Item 1, 04_Exhibit_2-1_Known_and_Measurables.xlsx, Developments-W Tab, Cells E8 through E83.

¹⁰⁹ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference F; Second Supplemental SAO.

¹¹⁰ Warren District's Response to Staff's Fifth Request, Item 3b.

District calculated it added \$1,226,145 worth of capital assets for the SCADA upgrade,¹¹¹ and proposed to depreciate them over a 10-year service life.

The Commission finds that this adjustment is reasonable and should be accepted, based on the calculations submitted to the Commission by Warren District. Since the SCADA system is currently in service, it is reasonable to begin recording depreciation. The Commission also finds the proposed service life of ten years is reasonable to align with the NARUC Studies proposed service lives for Communication Equipment.

Depreciation Expense – CIS Infinity Upgrade Billing Software. Warren District originally proposed an increase of \$22,230 to account for an upgrade to Warren District's CIS Infinity Billing Software.¹¹² Warren District, in its brief, confirmed this project would not be completed until 2026 at the earliest, and therefore, revised the proposal to not include the adjustment to depreciation expense to no longer include the CIS Infinity upgrade, resulting in its proposed \$22,230 increase to Depreciation Expense reducing to \$0.¹¹³ The Commission agrees with the removal of the project's expense since the project will not be placed into service within the next calendar year.

Taxes Other Than Income – Payroll Taxes. Warren District proposed an increase of \$34,557 to account for the reclassification to Payroll Taxes and changes to Payroll taxes resulting from alterations to Salaries and Wages – Employees.¹¹⁴

¹¹¹ Warren District's Response to Staff's Second Request, Item 1, 04_Exhibit_2-1_Known_and_Measurables.xlsx, SCADA Upgrades Tab, G40.

¹¹² Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference G.

¹¹³ Supplemental SAO at 4, Item 2; Second Supplemental SAO.

¹¹⁴ Application, Exhibit 11, Statement of Adjusted Operations and Revenue Requirement Calculations, Reference H.

The Commission calculated the payroll taxes expense using the pro forma Salaries and Wages – Employees, discussed above, and the pro forma Salaries and Wages – Officers. In addition, the Commission included the Benefit’s Wages amount in payroll taxes since the Benefit wages consists of Annual Leave, Sick Leave, Holidays, Birthday, and United Way Holiday¹¹⁵ since these are subject to Payroll taxes. The Commission finds that payroll expense should be \$34,109, which is \$448 less than the \$34,557 proposed by Warren District, because it is a known and measurable change that is a direct result of changes to Salaries and Wages – Employees.

Description	Staff's
Pro Forma Salaries and Wages - Employees	\$ 418,117
Pro Forma Salaries and Wages - Officers	15,000
Pro Forma Benefit Wages	12,746
Total Pro Forma Salaries and Wages	445,863
Times Payroll Taxes	7.65%
Total Pro Forma Payroll Taxes	34,109
Less: Adjusted Payroll Taxes	(34,557)
Commission Staff's Proposed Adjustment	<u>\$ (448)</u>

Summary of Adjustments to Operating Expenses and Revenues

The following schedule summarizes Warren District's test-year operating revenues and expenses, including appropriate adjustments found reasonable herein. The chart in Appendix C, attached to this Order, is a detailed pro forma Income Statement that shows the proposed, revised, and accepted adjustments for Warren District:

¹¹⁵ Warren District's Response to Staff's Third Request, Item 4a.

Description	2023 Test Year	Pro Forma Adjustments	Commission Approved Pro Forma
Total Operating Revenues	\$ 6,680,415	\$ (369,685)	\$ 6,310,730
Total Operating Expenses ()	(6,345,247)	475,538	(6,820,785)
Net Operating Income	335,168	105,853	(510,055)
Interest Income	-	432,358	432,358
Income Available to Service Debt	<u>\$ 335,168</u>	<u>\$ 538,211</u>	<u>\$ (77,697)</u>

Debt Service Coverage

Warren District proposed to use the Debt Service Coverage Method (DSC) to calculate its revenue requirement. The Commission has historically applied a (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations.¹¹⁶ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) depreciation expense, a noncash item, to provide working capital;¹¹⁷ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense. The Commission finds that the three-year Principal and Interest DSC method is appropriate given the debt currently held by Warren District. This will allow for the proper funding of the debt service obligations.

¹¹⁶ Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022). Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

¹¹⁷ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

1. Average Annual Principal and Interest Payments. Warren District reported one outstanding United States Department of Agriculture Rural Development (RD) bond,¹¹⁸ three outstanding Kentucky Rural Water Finance Corporation (KRWFC) loans,¹¹⁹ one outstanding Kentucky Infrastructure Authority (KIA) Loan,¹²⁰ and two short-term debts.¹²¹

In its application, Warren District requested recovery of debt service payments based on an average of the annual principal, interest and fee payments for the three years following the test year, 2024 through 2026, in the amount \$618,554.¹²² In the supplemental SAO, Warren District proposed to calculate its Average Principal and Interest payments excluding principal amounts associated with the short-term loans,

¹¹⁸ Case No. 2005-00299, *The Application of Warren County Water District, Warren County, Kentucky, (A) for a Certificate of Convenience and Necessity, Pursuant to KRS 278.020 and 278.023, Authorizing Said District to Construct Improvements and Extensions to its Existing Water System, Which Improvements and Extensions Will be Financed in Part Under the Terms of an Agreement Between the Water District and the United States Department of Agriculture; Rural Development, (B) for Authority to Issue Certain Securities as Required by KRS 278.300; and (C) for Approval of Water Rates and Charges*, (Ky. PSC Aug. 15, 2005).

¹¹⁹ Case No. 2012-00043, *Application of Warren County Water District to Issue Securities in the Approximate Principal Amount of \$2,095,000 for the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001*, (Ky. PSC Mar. 8, 2012). Case No. 2016-00134, *Application of Warren County Water District to Issue Securities in the Approximate Principal Amount of \$2,365,000 for the Purpose of Reamortizing a Certain Outstanding Loan of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Apr. 15, 2016). Case No. 2021-00007, *Electronic Application of Warren County Water District to Issue Securities in the Approximate Principal Amount of \$3,735,000 for the Purpose of Refunding and Reamortizing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Mar. 24, 2021).

¹²⁰ Case No. 2020-00052, *Electronic Application of Warren County Water District for (1) A Certificate of Public Convenience and Necessity, Pursuant to KS 278.020 Authorizing Said District to Construct Improvements and Extensions to its Existing Water System, Which Improvements and Extensions will be Financed in Whole or in Part Under Terms of an Agreement Between the Water District and the Kentucky Infrastructure Authority; and (2) For Authority to Issue Certain Securities as Required by KRS 278.300*, (Ky. PSC Apr. 7, 2020).

¹²¹ Warren District's Response to Staff's Second Request, Item 3.

¹²² Warren District's Response to Staff's Third Request, Item 1, 03_Exhibit_3-1.xlsx, Principal & Interest Tab.

resulting in a revised average annual principal and interest payments of \$569,243.¹²³ In its brief,¹²⁴ Warren District proposed to exclude from the revenue requirements calculation the principal payments associated with the Series 2022D Loan and the Series 2024D Loan because the two loans involve short-term debt instruments, and their principal payments have a significant impact upon the District's Revenue requirement.¹²⁵

However, because the suspension date for a final Order to be issued in this proceeding is January 31, 2025, the 2024 debt service payments will be recovered through Warren District's existing rates. Therefore, only the debt service payments that will be made after the new rates are placed into effect should be considered in determining Warren District's Annual Principal and Interest Expense.

The Commission calculated the average annual principal, interest, and fees on a three-year average for the years 2025 through 2027 not including the short-term loans' principal amounts, as the 2024 time period has passed. This is different from three-year average of 2024 through 2026 that Warren District used. However, the Commission agrees in excluding from the revenue requirement calculation of the principal payments associated with the two short-term loans. The Commission calculated the average debt service of \$460,918 as shown below.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital equal to the minimum

¹²³ Supplement Statement of Adjusted Operations, 02_Notice_of_Filing_Supplemental_SAO.pdf, Item 3.

¹²⁴ Warren District's Brief at 24 – 25.

¹²⁵ The KRWFC Series 2022D Loan was a short-term loan that matured in 2024. Therefore, it is not included in the 2025 through 2027 Debt Service calculation.

net revenues required by a district's lenders above its average annual debt payments. In its application, Warren District requested recovery of an allowance for working capital equal to 120 percent of its average annual debt payments, in the amount \$123,711, for its Waterworks Revenue bonds and KIA loan at the time of its application.¹²⁶ In its supplemental SAO, Warren District updated the Additional Working Capital based upon the revisions to the average annual principal and interest payments as discussed above, resulting in revised additional working capital of \$113,849.¹²⁷

Following its historic practice,¹²⁸ the Commission agrees with Warren District's methodology. Therefore, using the Commission's average annual principal and interest calculated above, the Commission included \$92,184 in the revenue requirement.

Description	Amount
Average Annual Principal and Interest	\$ 460,918
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	553,102
Less: Average Annual Principal and Interest Payments	(460,918)
Additional Working Capital	<u>\$ 92,184</u>

Overall Revenue Requirement

Applying the DSC method to Warren District's pro forma operations results in an Overall Revenue Requirement of \$7,373,887 and, based upon pro forma present rate

¹²⁶ Application, Exhibit 11, Revenue Requirements Chart.

¹²⁷ Supplement Statement of Adjusted Operations, 02_Notice_of_Filing_Supplemental_SAO.pdf, Item 3.

¹²⁸ Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Nov. 17, 2023). Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024). Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).

service revenues of \$6,219,279, a revenue increase of \$630,799 or 10.14 percent from sewer service rates is necessary to generate the overall revenue requirement.

Description	Warren District		
	Warren District Initial Proposal	Warren District Revised Proposal	Commission Approved
Pro Forma Operating Expenses	\$ 6,747,193	\$ 6,723,512	\$ 6,820,785
Plus: Average Annual Principal and Interest Payments	618,554	569,243	460,918
Plus: Additional Working Capital at 20%	123,711	113,849	92,184
Rate Case Expense	43,724	48,242	-
Total Revenue Requirement	7,533,182	7,454,846	7,373,887
Less: Other Operating Revenue ()	(103,801)	(103,801)	(91,451)
Less: Interest Income ()	(432,358)	(432,358)	(432,358)
Less: Nonutility Income ()	(4)	(4)	-
Revenue Required From Water Sales	6,997,019	6,918,683	6,850,078
Less: Revenue from Sales at Present Rates ()	(6,144,256)	(6,144,256)	(6,219,279)
Required Revenue Increase / (Decrease)	\$ 852,763	\$ 774,427	\$ 630,799
Percentage Increase / (Decrease)	13.88%	12.60%	10.14%

RATE DESIGN

Warren District included with its application a Cost-of-Service Study (COSS) performed following the procedures recommended by the American Water Works Association (AWWA) in its *Water Rates Manual M-1, Seventh Edition for the Base Extra Capacity Method*. This method has been accepted by the Commission in past proceedings and the Commission finds that is a reasonable method for allocating expenses to the retail customers in this case.¹²⁹

Base costs are operations and maintenance (O&M) costs as well as capital costs that are integral to daily utility functions including costs associated with service to customers under average day conditions. These costs would include salaries, insurance,

¹²⁹ See Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Nov. 20, 2019), Commission Staff Report at 4.

power, chemical, etc. Capital investments related to meeting constant or average day usage would also be included in this category.

Extra Capacity costs are associated with meeting water usage requirements above the average day condition. This includes capital and O&M expenses for system capacity required beyond the average rate of use. This includes a determination of the impact of maximum hour and maximum day requirements. Examples of this expense would include overtime salaries, extra chemical, power, storage needed and pipe capacity.

Customer costs are those which are directly related with serving the customers such as billing, meter reading, customer service or utility management. In addition, costs related to meters, services and administrative functions are also included in this category. This category is typically related to expenses that are outside of the production and transmission aspects of the system.

Warren District's COSS determined that the cost to serve industrial and commercial customers exceeds the revenue from sales to those customers. Conversely, revenues from sales to residential customers is exceeding the cost of serving those customers.

Warren District's current rate tiers for sewer service do not match those for water service. As sewer customers are billed according to their water usage, Warren District proposed to modify its existing rate structure for sewer service to match the same structure as its water service. Additionally, Warren District proposed to modify the minimum usage volumes for its sewer rate structure to match that of its water service rate structure. Warren District stated this will make it easier for customers to understand their bill as well as make it easier on district staff responsible for billing.

Additionally, Warren District proposed to eliminate the separate sewer tariff for the customers of Smiths Grove and have one unified rate structure for all sewer customers. The Smiths Grove customers had higher rates because of debt specifically incurred for the Smiths Grove area. The Commission finds the elimination of the separate sewer tariff for Smiths Grove should be approved, as this debt has been paid in full,¹³⁰ there is no longer justification for the Smiths Grove customers to pay higher rates for sewer service than the other district customers.

The Commission accepts Warren District's proposed COSS as a reasonable basis for allocating costs, but incorporates revisions based upon the adjustments made to the pro forma expenses explained above. The Commission's revised rates are shown in Appendix B. The rates set forth in Appendix B to this report are based upon the revenue requirement as calculated by the Commission and will produce sufficient revenues from sewer sales to recover the \$6,850,078 Revenue Requirement from sewer sales determined by the Commission, an approximate 10.14 percent increase.¹³¹ The average bill for a residential customer using 4,062 gallons will increase from \$23.18 to \$24.90, an increase of \$1.72 or approximately 7.43 percent. For the average customer in the Smiths Grove service area, the average bill for a residential customer using 3,364 gallons will decrease from \$26.40 to \$20.94, a decrease of \$5.46 or approximately (20.67) percent.

NONRECURRING CHARGES

¹³⁰ Application at 3-4, 147, 184.

¹³¹ Revenue Requirement less Other Operating Revenue, Interest Income, and Sewer Collection Fees.

The Commission reviewed Warren District's Nonrecurring Charges and determined the labor performed during regular business hours is already recovered as a part of the revenue requirement. The breakdown of cost for each nonrecurring charge and any Commission adjustment can be found in Appendix A to this Order.

The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours without sufficient evidence to support such a finding. Only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours.

Warren District provided updated cost justification forms for its Nonrecurring Charges.¹³² The Commission has reviewed the cost justification forms provided by Warren District and has adjusted these charges to remove the estimated costs of labor from each charge. The breakdown of cost for each nonrecurring charge and any Commission adjustment can be found in Appendix A to this Order. The Commission finds that these adjustments to Warren District's nonrecurring charges are reasonable because the evidence filed into the case record, the adjustments to the charges reflect existing precedent.¹³³

¹³² Warren District's Response to Staff's Second Request, Item 1-36.

¹³³ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).


IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Warren District in its application and supplemental statement of adjusted operations are denied.
2. The rates and charges as set forth in Appendix B are approved as fair, just and reasonable rates for Warren District, and these rates and charges are approved for service on and after the date of this Order.
3. The request to eliminate the separate sewer tariff for Smiths Grove customers is granted.
4. Within 20 days of the date of this Order, Warren District shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner

ATTEST:


Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00201 DATED MAY 20 2025

Nonrecurring Charges Adjustments

Delinquent Service				
	Utility Revised Charge		Staff Revised Charge	
Field Materials	\$	-	\$	-
Field Labor	\$	23.81	\$	-
Office Supplies	\$	1.11	\$	1.11
Office Labor	\$	6.63	\$	-
Transportation	\$	5.29	\$	5.29
Misc.	\$	-	\$	-
Total Revised Charge*	\$	36.84	\$	6.00
Current Rate	\$	25.00		
Meter Reading Re-Check Charge				
	Utility Revised Charge		Staff Revised Charge	
Field Materials	\$	-	\$	-
Field Labor	\$	30.99	\$	-
Office Supplies	\$	-	\$	-
Office Labor	\$	11.07	\$	-
Transportation	\$	7.86	\$	7.86
Misc.	\$	-	\$	-
Total Revised Charge*	\$	49.92	\$	8.00
Current Rate	\$	25.00		
Meter Test Request				
	Utility Revised Charge		Staff Revised Charge	
Field Materials	\$	-	\$	-
Field Labor	\$	71.84	\$	-
Office Supplies	\$	-	\$	-
Office Labor	\$	4.43	\$	-
Transportation	\$	5.00	\$	5.00
Misc.	\$	-	\$	-
Total Revised Charge	\$	81.27	\$	5.00
Current Rate	\$	50.00		
Service Connection - After Hours				

	Utility Revised Charge		Staff Revised Charge	
Field Materials	\$	-	\$	-
Field Labor	\$	40.75	\$	40.75
Office Supplies	\$	-	\$	-
Office Labor	\$	13.95	\$	-
Transportation	\$	7.58	\$	7.58
Misc.	\$	8.97	\$	8.97
Total Revised Charge	\$	71.25	\$	57.00
Current Rate	\$	65.00		

Returned Check Charge				
	Utility Revised Charge		Staff Revised Charge	
Field Materials	\$	-	\$	-
Field Labor	\$	-	\$	-
Office Supplies	\$	-	\$	-
Office Labor	\$	19.93	\$	-
Transportation	\$	-	\$	-
Misc. (Bank Charge)	\$	12.00	\$	12.00
Total Revised Charge	\$	31.93	\$	12.00
Current Rate	\$	25.00		

Service Investigation - After Hours				
	Utility Revised Charge		Staff Revised Charge	
Field Materials	\$	-	\$	-
Field Labor	\$	82.98	\$	82.98
Office Supplies	\$	-	\$	-
Office Labor	\$	7.75	\$	-
Transportation	\$	11.64	\$	11.64
Misc.	\$	8.97	\$	8.97
Total Revised Charge*	\$	111.34	\$	104.00
Current Rate	\$	65.00		

Service Connection				
	Utility Revised Charge		Staff Revised Charge	
Field Materials	\$	-	\$	-
Field Labor	\$	27.17	\$	-
Office Supplies	\$	-	\$	-
Office Labor	\$	13.95	\$	-
Transportation	\$	7.58	\$	7.58

Misc.	\$	-	\$	-
Total Revised Charge*	\$	48.70	\$	8.00

Current Rate	\$	25.00
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Service Investigation

	Utility Revised Charge		Staff Revised Charge	
Field Materials	\$	-	\$	-
Field Labor	\$	55.32	\$	-
Office Supplies	\$	-	\$	-
Office Labor	\$	7.75	\$	-
Transportation	\$	11.64	\$	11.64
Misc.	\$	-	\$	-
Total Revised Charge*	\$	74.71	\$	12.00
Current Rate	\$	25.00		

Service Line Inspection Charge

	Utility Revised Charge		Staff Revised Charge	
Field Materials	\$	-	\$	-
Field Labor	\$	55.03	\$	-
Office Supplies	\$	-	\$	-
Office Labor	\$	7.75	\$	-
Transportation	\$	11.58	\$	11.58
Misc.	\$	-	\$	-
Total Revised Charge	\$	74.36	\$	12.00
Current Rate	\$	50.00		

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00201 DATED MAY 20 2025

Monthly Sewer Rates (All Service Areas)

5/8- x 3/4-Inch Meter

First	2,000	gallons	\$ 13.21	Minimum bill
Next	8,000	gallons	0.00567	per gallon
Next	90,000	gallons	0.00442	per gallon
Next	900,000	gallons	0.00410	per gallon
All Over	1,000,000	gallons	0.00375	per gallon

1-Inch Meter

First	5,000	gallons	\$ 30.22	Minimum bill
Next	5,000	gallons	0.00567	per gallon
Next	90,000	gallons	0.00442	per gallon
Next	900,000	gallons	0.00410	per gallon
All Over	1,000,000	gallons	0.00375	per gallon

1 ½-Inch Meter

First	10,000	gallons	\$ 58.87	Minimum bill
Next	90,000	gallons	0.00442	per gallon
Next	900,000	gallons	0.00410	per gallon
All Over	1,000,000	gallons	0.00375	per gallon

2-Inch Meter

First	20,000	gallons	\$ 102.77	Minimum bill
Next	80,000	gallons	0.00442	per gallon
Next	900,000	gallons	0.00410	per gallon
All Over	1,000,000	gallons	0.00375	per gallon

3-Inch Meter

First	30,000	gallons	\$ 146.97	Minimum bill
Next	70,000	gallons	0.00442	per gallon
Next	900,000	gallons	0.00410	per gallon
All Over	1,000,000	gallons	0.00375	per gallon

4-Inch Meter

First	50,000	gallons	\$ 235.37	Minimum bill
Next	50,000	gallons	0.00442	per gallon
Next	900,000	gallons	0.00410	per gallon
All Over	1,000,000	gallons	0.00375	per gallon

6-Inch Meter

First	100,000	gallons	\$ 456.37	Minimum bill
Next	900,000	gallons	0.00410	per gallon
All Over	1,000,000	gallons	0.00375	per gallon

Nonrecurring Charges

Delinquent Service Charge	\$6.00
Meter Reading Recheck Charge	\$8.00
Meter Test Request	\$5.00
Service Connection Charge	\$8.00
Service Connection Charge (After Hours)	\$57.00
Service Investigation Charge	\$12.00
Service Investigation Charge (After Hours)	\$104.00
Service Line Inspection Charge	\$12.00
Returned Check Charge	\$12.00

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00201 DATED MAY 20 2025

Description	2023 Test Year	Warren District Initial Adjustments	Warren District Revised Adjustments	Commission Approved Adjustments	Total Adjustments	Pro Forma
Metered Revenues						
Metered Retail Sales	\$ 6,144,256			\$ 75,023	\$ 75,023	\$ 6,219,279
Total Metered Revenues	6,144,256	-		75,023	75,023	6,219,279
Other Water Revenues						
Forfeited Discounts	84,207				-	84,207
Interest Income	432,358	-		(432,358)	(432,358)	-
Miscellaneous Service Revenues	33,870	-		(12,350)	(12,350)	21,520
Other Water Revenues	(14,276)				-	(14,276)
Total Other Water Revenues	536,159	-		(444,708)	(444,708)	91,451
Total Operating Revenues	6,680,415	-		(369,685)	(369,685)	6,310,730
Operation and Maintenance						
Salaries and Wages - Employees	317,554	10,292	10,292	-	10,292	
		6,351	6,351	-	6,351	
		85,369	83,920	-	83,920	418,117
Salaries and Wages - Officers	15,000					15,000
Employee Overhead	179,639	(27,368)	(27,368)	-	(27,368)	
		12,746	12,746	-	12,746	
		467	467	-	467	
		10,083	10,083	-	10,083	
		16,702	16,702	-	16,702	
		4,578	4,578	-	4,578	
		2,825	2,825	-	2,825	199,672
Sewage Disposal	3,374,015					3,374,015
Purchased Power	157,890					157,890
Materials and Supplies	59,604					59,604
Contractual Services - Accounting	14,000					14,000
Contractual Services - Legal	5,136	-	108	-	108	5,244
Contractual Services - Other	226,678	-	(108)	-	(108)	226,570
Equipment Expenses	37,620					37,620
Insurance - Gen. Liab. & Workers Comp.	15,774					15,774
Insurance - Other	2,545					2,545
Regulatory Expense	8,006					8,006
Bad Debt	4,466					4,466
Miscellaneous Expense	17,777					17,777
Chemicals	30,983					30,983
Miscellaneous Non-Utility Income	(4)	4	4	-	4	-
Unrealized (Gain)/Loss on Investment	(39,712)	-	-	39,712	39,712	-
Total Operating and Maintenance Expenses	4,426,971	122,049	120,600	39,712	160,312	4,587,283
Rate Case Amortization	-	43,724	48,242	920	49,162	49,162
Depreciation Expense	1,918,276	7,433	7,433	4,460	11,893	
		55,216	55,216	(2,947)	52,269	
		37,845	37,845	7,334	45,179	
		122,614	122,614	-	122,614	
		22,230	-	(22,230)	-	2,150,231
Taxes Other Than Income	-	34,557	34,557	(448)	34,109	34,109
Total Operating Expenses	6,345,247	445,668		26,801	475,538	6,820,785
Net Operating Income	335,168	(445,668)		(396,486)	(845,223)	(510,055)
Interest Income	-	-		432,358	432,358	432,358
Income Available to Service Debt	\$ 335,168	\$ (445,668)		\$ 35,872	\$ (412,865)	\$ (77,697)

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