

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH LOGAN	)	
WATER ASSOCIATION, INC. FOR AN	)	CASE NO.
ALTERNATIVE RATE FILING PURSUANT TO 807	)	2024-00203
KAR 5:076	)	

ORDER

On October 7, 2024,<sup>1</sup> South Logan Water Association, Inc. (South Logan Water) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Order in Case No. 2022-00103.<sup>2</sup> South Logan Water's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2002-00481.<sup>3</sup> Since that matter, the only cases involving base rate increases filed by South Logan Water have been purchased water adjustments, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity.

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<sup>1</sup>South Logan Water tendered its application on July 1, 2024. By letter dated July 5, 2024, and Order dated July 31, 2024], the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on October 7, 2024.

<sup>2</sup> Case No. 2022-00103, *Electronic Application of South Logan Water Association, Inc. For a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to the Provisions KRS 278.023* (Ky. PSC Jul. 27, 2022), Order at 5, ordering paragraph 1.

<sup>3</sup> Case No. 2002-00481, *The Application of the South Logan Water Association for Approval of a Proposed Increase in Rates for Water Service, Approval to Borrow Funds, and to Increase Non-Recurring Charges* (Ky. PSC Oct. 9, 2003).

Using its pro forma test-year operations, South Logan Water determined that a base rate revenue increase of \$142,442, or 11.83 percent, was necessary to achieve the revenue requirement.<sup>4</sup>

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated October 21, 2024. South Logan Water responded to two requests for information from Commission Staff<sup>5</sup> and made four supplemental filings.<sup>6</sup>

On February 10, 2025, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding South Logan Water's requested rate adjustment. In Commission Staff's Report, Commission Staff recommended that South Logan Water's adjusted test-year operations support a total revenue requirement of \$1,388,254 and a \$145,256 revenue increase, or 12.06 percent.<sup>7</sup> In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board of retail customers to calculate its recommended water rates.<sup>8</sup>

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<sup>4</sup> South Logan Water's Response to Filing Deficiencies, Attachment 2, Revised Statement of Adjusted Operations Utilizing 2023 Test Year, Revenue Requirement (filed July 15, 2024).

<sup>5</sup> South Logan Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Nov. 26, 2024). South Logan Water's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Dec. 20, 2024).

<sup>6</sup> South Logan Water's Supplemental Response to Staff's First Request, Item 6 and Staff's Second Request (filed Jan. 8, 2025), Item 4; South Logan Water's Supplemental Response to Staff's First Request (filed Jan. 9, 2025), Item 15a; South Logan Water's Notification of Wholesale Rate Increase (filed Jan. 14, 2025); and South Logan Water's Supplemental Response to Staff's First Request (filed Jan. 17, 2025), Item 15b.

<sup>7</sup> Commission Staff's Report at 4.

<sup>8</sup> Commission Staff's Report at 5.

On February 20, 2025, South Logan Water filed its response to Commission Staff's Report.<sup>9</sup> In its written comments, South Logan Water stated it did not agree with Commission Staff's recommendation to exclude the excess water loss bonus from the calculation for Salaries and Wages – Employees and requested that the Commission restore the excess water loss bonus to the calculation for Salaries and Wages.<sup>10</sup>

South Logan Water stated that it does not agree with the removal of certain labor expenses from nonrecurring charges, but it did not wish to contest that adjustment.<sup>11</sup> Additionally, South Logan Water concurred with the remainder of the findings in Commission Staff's Report<sup>12</sup> and waived its right to request an informal conference or hearing in this case.<sup>13</sup> 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."<sup>14</sup>

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<sup>9</sup> South Logan Water's Response to Staff Report (filed Feb. 20, 2025), Read\_First\_Response\_to\_Staff\_Report.pdf.

<sup>10</sup> South Logan Water's Response to Staff Report, Response\_to\_Staff\_Report.pdf, Item 1.

<sup>11</sup> South Logan Water's Response to Staff Report, Response\_to\_Staff\_Report.pdf, Item 2.

<sup>12</sup> South Logan Water's Response to Staff Report, Response\_to\_Staff\_Report.pdf, Item 3.

<sup>13</sup> South Logan Water's Response to Staff Report, Response\_to\_Staff\_Report.pdf, Item 4.

<sup>14</sup> *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).

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

South Logan Water is a water utility organized pursuant to KRS Chapter 273 that owns and operates a distribution system through which it provides retail water service to approximately 1,771 residential customers, 62 commercial customers that reside in Logan County, Kentucky.<sup>15</sup>

### UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2023 Annual Report, South Logan Water reported a water loss of 13.5624 percent.<sup>16</sup> The 2021 water loss was 14.6712<sup>17</sup> percent and the 2022 water loss was 14.6712 percent.<sup>18</sup> Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2023 total annual cost of water loss to South Logan Water is \$71,980.

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<sup>15</sup> *Annual Report of South Logan Water to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) 12, 49.

<sup>16</sup> 2023 Annual Report at 57.

<sup>17</sup> *Annual Report of South Logan Water to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) 57.

<sup>18</sup> *Annual Report of South Logan Water to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2021 Annual Report) (2022) Annual Report 57.

Description	Purchased Water	Purchased Power	Total
Total Adjusted Expenses	\$ 513,841	\$ 16,889	\$ 530,730
Water Loss Percent	13.5624%	13.5624%	13.5624%
Total Water Loss	<u>\$ 69,689</u>	<u>\$ 2,291</u>	<u>\$ 71,980</u>

### TEST PERIOD

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

### SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes South Logan Water's pro forma income statement as follows:

Description	2023 Test Year	Total Adjustments	Commission Staff's Pro Forma
Total Other Water Revenues	\$ 1,293,370	\$ (55,227)	\$ 1,238,143
Total Operating Expenses ( )	(1,185,411)	18,741	(1,166,670)
Net Operating Income	107,959	(36,486)	71,473
Interest Income	-	4,855	4,855
Income Available to Service Debt	<u>\$ 107,959</u>	<u>\$ (31,631)</u>	<u>\$ 76,328</u>

### REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

South Logan Water proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. Upon review, the Commission discovered in the application, South Logan Water proposed removing expenses related to the Installation of water taps from Salaries and Wages – Employees and Materials and Supplies, Commission Staff agreed with this methodology since the USoA requires that

these expenses be capitalized rather than expensed. However, the Commission observed that the amounts South Logan removed from expense had already been capitalized and thus the original expense reduction that South Logan Water proposed should not have been made. Therefore, the Commission reversed the adjustment in the Staff Report for Materials and Supplies, increasing the expense by \$10,825. This adjustment will increase the Revenue Requirement by \$10,825. The following is the Commission's complete pro forma:

Description	2023 Test Year	Total Adjustments	Commission Staff's Pro Forma	Commission Adjustments	Commission Approved Pro Forma
<b>Operating Revenues</b>					
Total Metered Retail Sales	\$ 1,258,900	\$ (54,780)	\$ 1,204,120	\$ -	\$ 1,204,120
Other Water Revenues:					
Other Water Revenues	34,470	2,553			
	-	(4,855)			
		1,855	34,023		34,023
Total Other Water Revenues	34,470	(447)	34,023	-	34,023
Total Operating Revenues	1,293,370	(55,227)	1,238,143	-	1,238,143
<b>Operation and Maintenance Expense</b>					
Salaries and Wages - Employees	201,539	(2,117)			
		(10,825)	188,597		188,597
Salaries and Wages - Officers	2,450	1,750	4,200		4,200
Employee Pensions and Benefits	3,408	518	3,926		3,926
Purchased Water	509,414	4,427	513,841		513,841
Purchased Power	16,889	-	16,889		16,889
Materials and Supplies	101,020	(10,825)	90,195	10,825	101,020
Contractual Services	15,590		15,590		15,590
Transportation	30,124		30,124		30,124
Insurance - General Liability & Workers Comp.	30,356		30,356		30,356
Advertising	693		693		693
Miscellaneous Expenses	73,730	-	73,730		73,730
Total Operation and Maintenance Expenses	985,213	(17,072)	968,141	10,825	978,966
Depreciation Expense	182,232	(1,219)			
		271	181,284	-	181,284
Taxes Other Than Income	17,966	(721)	17,245	-	17,245
Total Operating Expenses	1,185,411	(18,741)	1,166,670	10,825	1,177,495
Net Operating Income	107,959	(36,486)	71,473	(10,825)	60,648
Non-Operating Revenues					
Interest Income	-	4,855	4,855		4,855
Income Available to Service Debt	\$ 107,959	\$ (31,631)	\$ 76,328	\$ (10,825)	\$ 65,503

Billing Analysis. South Logan Water provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application.<sup>19</sup> South Logan Water reported total metered water sales revenue of \$1,258,900 for the test year in its Schedule of Adjusted Operations.<sup>20</sup> South Logan Water 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 tariff to be \$1,204,120 and proposed an adjustment to decrease test year water sales revenue by \$54,780 to reflect the revenues from water rates generated by the billing analysis.<sup>21</sup> Commission Staff noted that a portion of the decrease could be the result of some nonrecurring charges being recorded as Sales of Water.<sup>22</sup> Commission Staff recommended the Commission accept the adjustment because the amount meet the ratemaking criteria of being known and measurable.<sup>23</sup>

The Commission finds that because the adjustment to Total Metered Retail Sales is a known and measurable change reflected in the evidence provided in the record, South Logan Water's Total Metered Retail Sales adjustment of a decrease by \$54,780 is appropriate.

Other Water Revenues. In the application South Logan Water reported \$34,470 for Other Water Revenues.<sup>24</sup> Other Water Revenues include credit card convenience

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<sup>19</sup> South Logan Water's Response to filing Deficiencies, Attachments\_to\_Cover\_Letter, Attachment 3, Revised Billing Analysis.

<sup>20</sup> South Logan Water's Response to filing Deficiencies, Attachments\_to\_Cover\_Letter, Attachment 2, Revised Statement of Adjusted Operations.

<sup>21</sup> South Logan Water's Response to filing Deficiencies, Attachments\_to\_Cover\_Letter, Attachment 3, Revised Billing Analysis.

<sup>23</sup> Commission Staff's Report, at 9–10.

<sup>24</sup> Response to filing Deficiencies, Attachments\_to\_Cover\_Letter.pdf, Attachment 2, Revised Statement of Adjusted Operations utilizing 2023 Test Year.

fees, interest income, late charges, contract meter reading fees, some nonrecurring charges and an unreconciled discrepancy to the general ledger.<sup>25</sup> Commission Staff determined that some Other Water Revenues amounts were the result of some nonrecurring charges being recorded as Sales of Water.<sup>26</sup> A summary of other water revenues by component and the related adjustments are presented in the table that follows the explanation of adjustments below.

Nonrecurring Charges – In the Staff Report, Commission Staff followed the Commission’s precedent in removing field labor and office/clerical labor costs<sup>27</sup> associated with labor performed by current employees during regular business hours and determined that pro forma nonrecurring charges should be \$3,153. The adjustment to nonrecurring charge costs, net of reclassifications from metered retail sales, results in an increase of \$2,553 to Other Water Revenues as shown below. Commission Staff recommended the Commission accept Commission Staff’s adjustment to Other Water Revenues because the amount meet the ratemaking criteria of being known and measurable.<sup>28</sup>

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<sup>25</sup> South Logan Water’s Response to Staff’s First Request, Item 1c, Item\_1c\_Cross\_Reference.xlsx, Rows 6 thru 10.

<sup>26</sup> Commission Staff’s Report at 10.

<sup>27</sup> 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).

<sup>28</sup> Commission Staff’s Report, at 10–11.



Nonrecurring Charges	Number of Occurrences	Current Charge	Revised Charge	Pro-Forma Nonrecurring Charges
Connection/Turn-on Charge (After Hours)	0	\$75.00	\$75.00	\$ -
Meter Relocation Charge	0	Actual Cost	Actual Cost	0
Damage to Meter, Meter Setter, Box or Lid (Field visit plus equipment replaced)	0	Actual Cost	Actual Cost	0
Distribution Valve box damage	0	Actual Cost	Actual Cost	0
Meter Re-read Charge (At customer's request)	0	\$45.00	\$0.00	0
Meter Re-read Charge (After hours)	0	\$75.00	\$51.00	0
Meter Test Charge	0	\$75.00	\$56.00	0
Disconnect/Reconnect for non-payment Charge	97	\$50.00	\$32.00	3,104
Reconnect for non-payment Charge (After Hours)	0	\$70.00	\$61.00	0
Returned Check Charge	7	\$35.00	\$7.00	49
Service Call/Investigation	0	\$55.00	\$25.00	0
Service Call/Investigation (After Hours)	0	\$85.00	\$75.00	0
Inspection Fee (New Meter Sets)	24	\$25.00	\$0.00	0
Pro Forma Nonrecurring Charges Revenue				3,153
Test Year Nonrecurring Charge Revenues ( )				(600)
Adjustment				<u>\$ 2,553</u>

The Commission finds that the Commission Staff's recommendation should be approved, as labor expenses resulting from work performed during normal business hours should not be recovered through nonrecurring charges.<sup>29</sup> The Commission requires that charges be 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 Commission Staff's recommendation is reasonable, the revised nonrecurring charges as described in Appendix A to be reasonable, and that South Logan Water's Other Water Revenues should be increased by \$2,553 because

<sup>29</sup> 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).

only the incremental cost related to the service should be recovered for service provided by current employees during normal business hours.

Interest Income - Commission Staff recommended reclassifying Interest Income of \$4,855 from Other Water Revenues to non-operating revenues. The Uniform System of Accounts for Class A/B Water Systems (USoA) requires Interest and Dividend Income to be included in the Other Income and Deductions section of the Income Accounts, not included in the Utility Operating Income section.<sup>30</sup> Commission Staff recommended the Commission accept Commission Staff's reclassification because it reflects the proper accounting for Interest and Dividend Income according to the USoA.<sup>31</sup>

The Commission finds that, because the reclassification of Interest Income within Other Water Revenues reflects the proper accounting for Interest and Dividend Income according to the USoA, South Logan Water's Other Water Revenues should be decreased by \$4,855 and these amounts reclassified as Other Income and Deductions. The Commission Staff's adjustment is reasonable and is authorized.

Adjustment for General Ledger Discrepancy - South Logan Water reported a \$1,855 discrepancy in Other Water Revenues between 2023 Annual Report and the Adjusted Trial Balance.<sup>32</sup> Commission Staff recommended the Commission accept Commission Staff's \$1,855 increase to Other Water Revenues, to reflect the reconciliation

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<sup>30</sup> USoA, Other Income and Deductions, Account 419. Interest and Dividend Income.

<sup>31</sup> Commission Staff's Report, at 11.

<sup>32</sup> South Logan Water's Response to Staff's First Request, Item 1c, Item\_1c\_Cross\_Reference.xlsx, Cell L10.

between the Adjusted Trial Balance and the application's Schedule of Adjusted Operations.<sup>33</sup>

The Commission finds that, Commission Staff's adjustment for the General Ledger discrepancy is a known and measurable change reflected in the evidence provided in the record, South Logan Water's Other Water Revenues should be increased by \$1,855.

The net effect of the above adjustments results in total Other Water Revenue of \$34,023, as shown in the following table, which is a net decrease of \$447 from South Logan Water's proposed pro forma amount.

Description	South Logan Water's Test Year	Commission Adjustments	Pro Forma Other Water Revenue
Late Charges	\$ 17,101	\$ -	\$ 17,101
Convenience Fees (Credit Cards)	9,877	-	9,877
Russellville Meter Readings	3,892	-	3,892
Non-Recurring Charges	600	2,553	3,153
Interest Income	4,855	(4,855)	-
Test Year Discrepancy to General Ledger	(1,855)	1,855	-
Total	<u>\$ 34,470</u>	<u>\$ (447)</u>	<u>\$ 34,023</u>

Salaries and Wages – Employees. In its application, South Logan Water reported a test year Salaries and Wages – Employees of \$201,539.<sup>34</sup> South Logan Water provided the test-year employee list,<sup>35</sup> test year regular and overtime hours worked,<sup>36</sup> current wage

<sup>33</sup> Commission Staff's Report, at 11.

<sup>34</sup> Response to filing Deficiencies, Attachments\_to\_Cover\_Letter.pdf, Attachment 2, Revised Statement of Adjusted Operations utilizing 2023 Test Year

<sup>35</sup> South Logan Water's Response to Staff's First Request, Item 6, Item\_6\_2023\_Water\_Report.xlsx, Row 1.

<sup>36</sup> South Logan Water's Response to Staff's First Request, Item 6, Item\_6\_2023\_Water\_Report.xlsx, Rows 5 thru 13.

rates,<sup>37</sup> and a current employee list.<sup>38</sup> During and subsequent to the test year, two employees ceased employment and were replaced by two part time employees. In addition, some employees received promotions, resulting in a change of wage rates.<sup>39</sup>

South Logan Water also provided a water-loss bonus to employees for the percentage amount below a targeted water loss of 22.60 percent.<sup>40</sup> The calculation used compares the gallons purchased divided by the gallons sold and does not take into account the gallons South Logan Water used for internal use.<sup>41</sup> Then, South Logan Water multiplied the percentage by a set dollar amount based on employee position,<sup>42</sup> resulting in a total water loss bonus of \$15,300, as shown in the following table. While this bonus is performance based, Commission Staff did not find it appropriate to reward staff for performing a function that is an inherent focus and responsibility of the utility. Therefore, Commission Staff excluded the water-loss bonus in the calculation for Salaries and Wages.

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<sup>37</sup> South Logan Water's Response to Staff's First Request, Item 6, Item\_6\_2024\_Wager\_Report.xlsx, Rows 9 and 10.

<sup>38</sup> South Logan Water's Response to Staff's First Request, Item 6, Item\_6\_2024\_Wager\_Report.xlsx, Row 1.

<sup>39</sup> South Logan Water's Response to Staff's Request for Clarification (filed Jan. 8, 2025).

<sup>40</sup> South Logan Water's Response to Staff's Second Request, Item 6, 6\_Water\_Loss\_Example.

<sup>41</sup> South Logan Water's Response to Staff's Second Request, Item 6, 6\_Water\_Loss\_Example.

<sup>42</sup> South Logan Water's Response to Staff's Second Request, Item 6, 6\_Water\_Loss\_Example.

Employee Position	Bonus Amount
Part Time Office Assistant	\$ 250
Outside Operations	2,960
Operations Manger	5,920
Outside Operations	2,960
Office Administration	2,960
Part Time Outside Operations	250
Total Water Loss Bonus	<u>\$ 15,300</u>

Commission Staff calculated Salaries and Wages – Employees amount of \$199,422, a decrease of \$2,117, as shown in the following table.

Employee Position	Test Year Reg. Hrs	Pro Forma Wage Rate	Pro Forma Reg. Wages	Test Year Overtime Hours	Overtime Wage Rate	Pro Forma Overtime Wages	Pro Forma Wages
Part Time Office Assistant	534	\$ 14.00	\$ 7,471	-	\$ 21.00	\$ -	\$ 7,471
Outside Operations	1,341	17.50	23,460	48.50	25.88	1,255	24,715
Operations Manger	2,106	22.10	46,550	363.18	33.15	12,039	58,590
Outside Operations	2,147	25.00	53,669	495.58	37.50	18,584	72,253
Office Administration	1,998	17.44	34,845	31.23	29.16	911	35,756
Part Time Outside Operations	590	14.00	196	21.00	21.00	441	637
Total	<u>8,715</u>		<u>\$ 166,191</u>	<u>959.49</u>		<u>\$ 33,231</u>	<u>199,422</u>
Less: Test Year Salaries and Wages ( )							(201,539)
Salaries and Wages Adjustment							<u>\$ (2,117)</u>

Commission Staff recommended the Commission accept Commission Staff's recommendation to exclude the water-loss bonus.<sup>43</sup> Commission Staff also recommended the Commission accept Commission Staff's adjustment to decrease Salaries and Wages – Employees by \$2,117, as it is known and measurable change because it reflects the test year hours at current wage rates with current employees.<sup>44</sup>

In response to Commission Staff's Report, South Logan Water stated it did not agree with Commission Staff's recommendation to exclude the water loss bonus from the

<sup>43</sup> Commission Staff's Report, at 13.

<sup>44</sup> Commission Staff's Report, at 12 – 14.

calculation for Salaries and Wages.<sup>45</sup> South Logan Water stated that: “no-performance-based bonus would be allowed, since all employee activities are an inherent focus and responsibility of the utility;”<sup>46</sup> additionally, “the bonus is clearly performance-based, supports the customers’ interest in reducing water loss, and is within the authority of the Association to manage and compensate its staff.”<sup>47</sup> South Logan District also stated: “By the Commission Staff’s determination that it ‘does not find it appropriate to reward staff for performing a function that is an inherent focus and responsibility of the utility,’ it appears that no performance-based bonus would be allowed, since all employee activities are ‘an inherent focus and responsibility of the utility.’” South Logan Water requested that the Commission allow for the inclusion of the water loss bonus in the calculation of Pro Forma Salaries and Wages.

In Commission Staff’s second request for information, Commission Staff requested an explanation of the water loss bonus including how it is determined and how it is calculated.<sup>48</sup> South Logan Water responded that water loss bonuses are calculated from December to November with the Purchased Water totals being compared to Sold Water totals, and it provided an example of the calculation in which the “Water Loss Base Target” was 22.6 percent.<sup>49</sup> However, South Logan Water did not specify how the performance

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<sup>45</sup> South Logan Water’s Response to Staff Report, Response\_to\_Staff\_Report.pdf, Item 1.

<sup>46</sup> South Logan Water’s Response to Staff Report, Response\_to\_Staff\_Report.pdf, Item 1.

<sup>47</sup> South Logan Water’s Response to Staff Report, Response\_to\_Staff\_Report.pdf, Item 1.

<sup>48</sup> Commission Staff’s Second Request, Item 6.

<sup>49</sup> South Logan Water’s Response to Staff’s Second Request, Item 6, 6\_Water\_Loss\_Example.

determinants were established or whether it was authorized by the board of commissioners.

The Commission agrees that utilities have broad discretion to manage and compensate employees. South Logan Water may have the ability to provide a water loss bonus. However, it did not provide a written policy for the expectations and standards, explanation for the methodology of the bonus, nor any formal authorization for the bonus. The Commission was unable to fully assess the reasonableness of the water-loss bonus program, and, accordingly, finds it should not be included in the pro forma Salaries and Wages – Employees. However, the Commission commends South Logan for identifying and incentivizing performance priorities and encourages South Logan to develop a written policy adopted by its Board for future Commission authorization.

Expenses Related to Meter Installations. In its application, South Logan Water proposed an adjustment to decrease Salaries and Wages – Employees by \$11,550, and also a proposed decrease Materials and Supplies by \$11,550,<sup>50</sup> to account for tap fee expenses that were included as part of these expenses during the test year.<sup>51</sup> During the test year, South Logan Water installed 26 new water connections:<sup>52</sup> twenty-four 5/8" x 3/4" taps, one 1-inch tap, and one 1-1/2-inch tap.<sup>53</sup> The USoA requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful

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<sup>50</sup> Response to filing Deficiencies, Attachments\_to\_Cover\_Letter.pdf, Attachment 2, Revised Statement of Adjusted Operations utilizing 2023 Test Year, Adjustment B.

<sup>51</sup> South Logan Water's Response to Staff's First Request, Item 2, Item\_2\_References.pdf, References, Adjustment B.

<sup>52</sup> South Logan Water's Response to Staff's First Request, Item 10a.

<sup>53</sup> South Logan Water's Response to Staff's Second Request, Item 2.

lives.<sup>54</sup> Commission Staff agrees with South Logan Water's proposed adjustment's methodology; however, Commission Staff calculated different adjustments. Commission Staff calculated the tap fees collected during the test year based upon the number of new taps installed and the current Tariff prices<sup>55</sup> to be \$21,650, as shown in the following table.

Size	Test-Year Taps Installed	Per unit Cost	Tap Revenues
5/8" x 3/4" Taps	24	\$ 800	\$ 19,200
1" Taps	1	1,100	1,100
1-1/2" Taps	1	1,350	1,350
Total	<u>26</u>		<u>\$ 21,650</u>

Commission Staff decreased Salaries and Wages – Employee by \$10,825 and Materials and Supplies by \$10,825, which is \$725 less than proposed by South Logan Water's proposed adjustments, as shown in the following table.

Description	Salaries and Wages - Employees	Materials and Supplies
Tap Fees Collected	\$ 21,650	\$ 21,650
Allocation Percentage ( )	-50%	-50%
Proposed Adjustment	(10,825)	(10,825)
Less: South Logan Water's Proposed Adjustment ( )	11,550	11,550
Commission Staff's Proposed Adjustment	<u>\$ 725</u>	<u>\$ 725</u>

Additionally, South Logan Water confirmed that it has not capitalized the water tap labor,<sup>56</sup> while the cost of replacements or betterments was capitalized.<sup>57</sup> Therefore,

<sup>54</sup> USoA, Accounting Instruction 19 and 33.

<sup>55</sup> P.S.C. Ky., Original Sheet No. 8, effective 11/5/2008.

<sup>56</sup> South Logan Water's Response to Staff's First Request, Item 10b.

<sup>57</sup> South Logan Water's Response to Staff's First Request, Item 10c.



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

Commission Staff recommended the Commission accept Commission Staff's adjustments to decrease Salaries and Wages – Employees by \$10,825 to and decrease Materials and Supplies by \$10,825 because it reflects the proper accounting for water connection expenses according to the USoA.<sup>58</sup>

The Commission finds that Commission Staff's adjustment to Salaries and Wages – Employees is reasonable and should be accepted. South Logan Water's Salaries and Wages – Employees should be reduced by \$10,825 with a corresponding adjustment to test-year depreciation as shown in Capitalization of Water Tap Labor because the USoA requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives.

The Commission also finds that Commission Staff's adjustment to Materials and Supplies Expense should be modified. South Logan confirmed the cost of replacements or betterments of meters is capitalized. As such, the material cost for the meter installations has already been capitalized,<sup>59</sup> and is not a part of Materials and Supplies Expense. Therefore, the original expense reduction that South Logan Water proposed should not have been made. South Logan Water's Materials and Supplies Expense should be increased by \$10,825 because the Water Connection materials are not included in Materials and Supplies Expense and not removed. The adjustment results in

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<sup>58</sup> Commission Staff's Report, at 14 – 16.

<sup>59</sup> South Logan Water's Response to Staff's First Request, Item 10c.

an increase to the Revenue Requirement of \$10,825 and is a known and measurable change based upon reversing an adjustment that was made in error.

Salaries and Wages - Officers. South Logan Water provided a list of the current directors and wages.<sup>60</sup> Each director receives \$50 per month.<sup>61</sup> Commission Staff calculated a normalized Salaries and Wages – Officers expense of \$4,200, as shown in the following table. Commission Staff increased Salaries and Wages – Officers by \$1,750, because it reflects a normalized year’s wages for the Officers.

Commissioners	Pro Forma Salaries
George Fugate	\$ 600
Jeff Campbell	600
John Mason Barnes	600
Bob Allen	600
Joel Armistead	600
Tammeria Ramsey	600
John Dockins Dawson	600
Total Salaries and Wages - Officers	4,200
Test Year Salaries and Wages - Officers ( )	(2,450)
Salaries and Wages - Officers Adjustment	<u>\$ 1,750</u>

Commission Staff recommended the Commission accept Commission Staff’s \$1,750 increase to Salaries and Wages – Officers, because it reflects a known and measurable change as it is a normalized year’s wages for the officers.<sup>62</sup>

<sup>60</sup> South Logan Water’s Response to Staff’s First Request, Item 9, Item\_9\_Board\_Directors\_Info.pdf.

<sup>61</sup> South Logan Water’s Response to Staff’s First Request, Item 9, Item\_9\_Board\_Directors\_Info.pdf.

<sup>62</sup> Commission Staff’s Report at 16.

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. South Logan Water's Salaries and Wages - Officers should be increased by \$1,750 because the known and measurable change is a direct result of the annualization of South Logan Water's current officer's salaries for an entire year.

Employee Pensions and Benefits – Retirement. South Logan Water confirmed it provides full-time employees with a 401k account at Edward Jones and matched up to 3 percent of an employee's salary amount.<sup>63</sup> South Logan Water also clarified that only two employees currently contribute to the 401k.<sup>64</sup> With the adjustments to the individual employee's salaries and wages calculated above, Commission Staff calculated the pro forma contribution for the two employees who contribute to the 401k and South Logan Water's matching percentage. Commission Staff calculated a pro forma retirement contribution of \$3,926, which is \$518 more than the test year's Employee Pension and Benefits as shown in the following table.

Description	Amount
Salaries and Wages - Employees	\$ 130,843
Times: Employer Contribution Percentage	3.0%
Pro Forma 401k Contribution	3,926
Test Year Contribution ( )	(3,408)
Employee Pensions and Benefits Adjustment	<u>\$ 518</u>

Commission Staff recommended the Commission approve Commission Staff's adjustment to increase Employee Pensions and Benefits by \$518, because it is a known

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<sup>63</sup> South Logan Water's Response to Staff's Second Request, Item 4. Also South Logan Water's Response to Staff's Request for Clarification.pdf.

<sup>64</sup> South Logan Water's response to PSC staffs request for clarification (filed Jan. 8, 2025), Response\_to\_PSC\_Request\_for\_Clarification.pdf

and measurable change that is a direct result from changes to Salaries and Wages – Employees.<sup>65</sup>

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. South Logan Water's Employee Benefits – Pensions should be increased by \$518 because the known and measurable change, described above, is a direct result of changes to Salaries and Wages – Employees.

Purchased Water Expense. In its application, South Logan Water reported test-year Purchased Water Expense of \$509,414.<sup>66</sup> Subsequent to the filing of this case, South Logan Water filed a notification that its wholesale water rate was increasing effective January 1, 2025, to \$0.00336 per gallon.<sup>67</sup> Commission Staff calculated Purchased Water Expense, using the test-year gallons purchased of 152,929,000 from the Logan/Todd Regional Water Commission<sup>68</sup> and the revised current rate of \$0.00336 per gallon. Commission Staff calculated a Purchased Water Expense of \$513,841, which results in a \$4,427 increase to Purchased Water Expense as shown in the table below.

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<sup>65</sup> Commission Staff's Report at 16–17.

<sup>66</sup> South Logan Water's Response to Filing Deficiencies, Attachments\_to\_Cover\_Letter.pdf, Attachment 2, Revised Statement of Adjusted Operations utilizing 2023 Test Year.

<sup>67</sup> Notification of Wholesale Rate Increase (filed Jan. 14, 2025), Change\_in\_Wholesale\_Water\_Rate.pdf.

<sup>68</sup> South Logan Water's Response to Staff's First Request, Item 11, Item\_11\_Purchased\_Water.xlsx, Column C.

Period	Gallons Purchased	Cost per Gallon	Total
January	11,521,000	\$ 0.00336	\$ 38,710.56
February	10,268,000	0.00336	34,500.48
March	12,774,000	0.00336	42,920.64
April	11,743,000	0.00336	39,456.48
May	13,349,000	0.00336	44,852.64
June	14,484,000	0.00336	48,666.24
July	13,838,000	0.00336	46,495.68
August	14,348,000	0.00336	48,209.28
September	13,373,000	0.00336	44,933.28
October	13,442,000	0.00336	45,165.12
November	11,241,000	0.00336	37,769.76
December	12,548,000	0.00336	42,161.28
Total Purchased Water Expense	<u>152,929,000</u>		\$ 513,841
Test Year Purchased Water ( )			(509,414)
Purchased Water Adjustment			4,427
Proposed Adjustment ( )			-
Commission Staff's Purchased Water Adjustment			<u>\$ 4,427</u>

Commission Staff recommended the Commission approve Commission Staff's adjustment to increase Purchased Water Expense by \$4,427, because it is a known and measurable change that is a normalization of purchased water at the current cost.<sup>69</sup>

The Commission finds that Commission Staff's recommended adjustments should be accepted. South Logan Water's Purchased Water Expense should be increased by \$4,427 given the Logan/Todd Regional Water Commission increase in its water rate, as a known and measurable change that reflects the normalization of water purchased during the test year to current rates charges.

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<sup>69</sup> Commission Staff's Report, at 17 – 19.

Depreciation Expense. In its application, South Logan Water proposed an adjustment to increase Depreciation Expense by \$10,791,<sup>70</sup> to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Utilities* (NARUC Study).<sup>71</sup> 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 the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.<sup>72</sup> Upon examination, Commission Staff agrees with South Logan Water's methodology to adjust depreciation expense. However, Commission Staff disagreed with some of the classifications and calculated amounts.

South Logan Water determined the depreciation expense for each category by taking the entire category's Book Cost divided by the NARUC suggested Service life midpoint.<sup>73</sup> Commission Staff reviewed each capital asset and determined the pro forma depreciation by depreciating each asset that was not fully depreciated over the NARUC suggested midpoint, and for assets that became fully depreciated during the test year, including the partial year's depreciation. In addition, several assets were classified under

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<sup>70</sup> South Logan Water's Response to Filing Deficiencies, Attachments\_to\_Cover\_Letter.pdf, Attachment 2, Revised Statement of Adjusted Operations utilizing 2023 Test Year, Adjustment C.

<sup>71</sup> South Logan Water's Response to Staff's First Request, Item 2.

<sup>72</sup> See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), Order; Case 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC, Dec. 22, 2023), Order at 30; Case 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024), Order at 36.

<sup>73</sup> South Logan Water's Response to Staff's First Request, Item 13a, 2023\_Rate\_Study\_South\_Logan\_Water.xlsx, Depreciation Tab.

incorrect categories. Therefore, Commission Staff reclassified the items and depreciated them over the revised service life.

Commission Staff calculated a Depreciation Expense of \$181,013, as shown in the following table, which is \$1,219 less than the reported test year amount of \$182,232, and \$12,010 less than South Logan Water's proposed \$10,791 increase to Depreciation Expense.

Asset Class	NARUC		Depreciation Adjustment	Pro Forma Depreciation
	Recommended Service Lives	Test Year Depreciation		
Group: 1800 - Land & Land Rights	35 - 40	\$ 613	\$ (286)	\$ 327
Group: 1801 - Pumping Equipment	35 - 40	1,106	(322)	784
Group: 1802 - Distribution Reservoirs	30 - 60	12,602	1,400	14,002
Group: 1802 - Communications equipment	10	774	0	774
Group: 1802 - Structures & Improvements	35 - 40	5,863	1,864	7,727
Group: 1803 - Transmission & Distr.	50 - 75	144,347	(28,346)	116,001
Group: 1803 - Communications Equipment	10	10,815	(0)	10,815
Group: 1804 - Services	30 - 50	0	0	0
Group: 1805 -Meters	35 - 45	25,640	(11,693)	13,947
Group: 1806 - Hydrants	40 - 60	2,497	(1,498)	999
Group: 1807- Office Equipment		756		
Group: 1811- Other Equipment	10 - 15	8,529	(3,134)	5,395
Group: 1811- Transportation Equipment	7	8,230	(2,352)	5,878
Group: 1812- Building & Bldg Imp	40 - 50	2,930	(501)	2,429
Group: 1814-MXU Meters	35 - 45	4,840	(2,905)	1,935
Total		<u>\$ 229,542</u>	<u>(47,773)</u>	181,013
Less: Reported Test Year Depreciation Expense ( )				(182,232)
Commission Staff's Adjustment				(1,219)
Less: South Logan Water's Proposed Adjustment ( )				(10,791)
Difference Between Commission Staff's Adjustment and South Logan Water's Adjustment				<u>\$ (12,010)</u>

Commission Staff recommended the Commission accept Commission Staff's \$1,219 decrease to Depreciation Expense to reflect the annualization of Depreciation expense at the recommended NARUC midpoint service lives.<sup>74</sup>

The Commission finds that Commission Staff's recommended adjustments should be accepted. South Logan Water's Depreciation Expense should be decreased by

<sup>74</sup> Commission Staff's Report, at 19 – 20.

\$1,219 because the known and measurable change is a direct result of aligning South Logan Water's capital asset's useful lives with the NARUC Study's recommended useful lives, reclassifying some assets into different NARUC Asset classifications, and only recording depreciation for the assets that still had a remaining book value.

Capitalization of Tap Fee Labor Expense. As explained in the Expenses Related to Meter Installations Adjustment above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. South Logan Water confirmed that it already capitalized the material costs of replacements or betterments,<sup>75</sup> but did not capitalize the labor costs.<sup>76</sup> Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$271 to account for the Tap Fee Labor Expense, as shown in the following table.

Description	Labor Expense Amount
Test year Water Connection Expense	\$ 10,825
Divided by NARUC Proposed Service Life	40
Pro Forma Depreciation Adjustment	<u>\$ 271</u>

Commission Staff recommended the Commission accept Commission Staff's \$271 increase to Depreciation Expense, because the USoA requires the assets to be depreciated over their estimated useful lives.<sup>77</sup>

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<sup>75</sup> South Logan Water's Response to Staff's First Request, Item 10c.

<sup>76</sup> South Logan Water's Response to Staff's First Request, Item 10b.

<sup>77</sup> Commission Staff's Report at 21.



The Commission finds that Commission Staff's recommended adjustments should be accepted. South Logan Water's Depreciation Expense should be increased by \$271 because the known and measurable amount reflects USoA requirement for assets to be depreciated over their estimated useful lives.

Taxes Other Than Income. As explained in Salaries and Wages – Employees and Salaries and Wages – Officers adjustments above, Commission Staff calculated South Logan Water's pro forma Salaries and Wages – Employees of \$199,422 and Salaries and Wages – Officers of \$4,200. Therefore, Commission Staff calculated a decrease of \$721 to Taxes Other Than Income, as shown in the following table.

Description	Amount
Salaries and Wages - Employees	\$ 199,422
Salaries and Wages - Officers	4,200
Total Salaries and Wages	203,622
Times: 7.65 Percent FICA Rate	7.65%
Total Payroll Taxes	15,577
Plus: PSC Assessment	1,668
Total Taxes other than Income	17,245
Test Year Taxes Other Than Income ( )	(17,966)
Commission Staff's Adjustment	<u>\$ (721)</u>

Commission Staff recommended the Commission approve Commission Staff's adjustment to decrease Taxes Other Than Income by \$721, because it is a known and measurable change that is a direct result from changes to Salaries and Wages – Employees, and Salaries and Wages - Officers.<sup>78</sup>

The Commission finds that Commission Staff's recommended adjustment should be accepted. South Logan Water's Taxes Other Than Income should be increased by

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<sup>78</sup> Commission Staff's Report at 21–22.

\$721 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees and Salaries and Wages – Officers.

### SUMMARY OF ADJUSTMENTS

Based upon the Commission’s findings discussed above, the following table summarizes South Logan Water’s adjusted pro forma:

Description	Commission Staff's Pro Forma	Commission Adjustments	Commission Approved Pro Forma
Total Other Water Revenues	\$ 1,238,143	\$ -	\$ 1,238,143
Total Operating Expenses ( )	(1,166,670)	(10,825)	(1,177,495)
Net Operating Income	71,473	(10,825)	60,648
Interest Income	4,855	-	4,855
Income Available to Service Debt	<u>\$ 76,328</u>	<u>\$ (10,825)</u>	<u>\$ 65,503</u>

### REVENUE REQUIREMENT

The Commission has historically applied the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations.<sup>79</sup> This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a noncash item, to provide working

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<sup>79</sup> 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).

capital;<sup>80</sup> (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

Description	Commission Staff's Report	Commission Approved
Pro Forma Operating Expenses	\$ 1,166,670	\$ 1,177,495
Average Annual Principal and Interest Payments	184,653	184,653
Additional Working Capital	36,931	36,931
Overall Revenue Requirement	1,388,254	1,399,079
Other Operating Revenue ( )	(34,023)	(34,023)
Interest Income	(4,855)	(4,855)
Revenue Required from Rates	1,349,376	1,360,201
Revenue from Sales at Present Rates ( )	(1,204,120)	(1,204,120)
Required Revenue Increase	\$ 145,256	\$ 156,081
Percentage Increase	12.06%	12.96%

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, South Logan Water had five Bonds with United States

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<sup>80</sup> 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).

Department of Agriculture (USDA) Rural Development (RD).<sup>81</sup> In its application, South Logan Water requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the five years following the test year, which is 2024 through 2028.<sup>82</sup> However, because the suspension date in this proceeding is April 4, 2025, the 2024 debt service payments were recovered through South Logan Water'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 South Logan Water's Annual Principal and Interest Expense. Commission Staff calculated the average annual principal and interest on a five-year average for the years 2025 through 2029. As shown in the following table, Commission Staff calculated an Average Principal and Interest expense of \$184,653, as shown in the following table.

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<sup>81</sup> Case No. 1993-00099, *The Application of South Logan Water Associations, Inc., Logan County Kentucky, Authorizing said Association to Construct an Addition to Water Distribution Systems, and Approval of Water Rate Increase*, (Ky. PSC Apr. 12, 1993). Case No. 1997-00465, *In the Matter of the Application of South Logan Water Association, Inc., of Logan County, Kentucky for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023* (Ky. PSC Dec. 24, 1997). Case No. 2005-00338, *The Application of South Logan Water Association, Inc., of Logan County, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Charges Pursuant to the Provisions of KRS 278.023* (Ky. PSC Sept. 21, 2005). Case No. 2013-00203, *Application of South Logan Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023* (Ky. PSC June 19, 2013). Case No. 2022-00103, *Electronic Application of South Logan Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to the Provisions KRS 278.023* (Ky. PSC July 27, 2022).

<sup>82</sup> South Logan Water's Response to Filing Deficiencies, *Attachments to Cover Letter.pdf*, Attachment 2, Revised Statement of Adjusted Operations utilizing 2023 Test Year, Table B, Debt Service Schedule.

Debt Service Schedule											
Year	2025		2026		2027		2028		2029		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
USDA RD 91-01	\$ 15,905	\$ 8,750	\$ 16,700	\$ 7,955	\$ 17,535	\$ 7,120	\$ 18,412	\$ 6,243	\$ 19,332	\$ 5,323	\$ 123,275
USDA RD 91-03	17,259	16,335	18,101	15,493	18,983	14,611	19,908	13,686	20,879	33,594	188,849
USDA RD 91-04	17,500	23,451	18,500	22,729	19,000	21,966	20,000	21,182	20,500	20,357	205,185
USDA RD 91-06	23,361	27,939	24,003	27,297	24,663	26,637	25,342	25,958	26,038	25,262	256,500
USDA RD 08	15,149	11,526	15,377	11,298	15,607	11,068	15,841	10,834	16,079	26,675	149,454
Total	\$89,174	\$88,001	\$92,681	\$84,772	\$95,788	\$81,402	\$99,503	\$77,903	\$102,828	\$111,211	923,263
Divide by: 5 years											5
Average Annual Principal and Interest Payment											<u>\$ 184,653</u>

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, South Logan Water requested recovery of an allowance for working capital that is equal to 120 percent of its average annual principal and debt payments at the time of its application for a total of \$35,464.<sup>83</sup>

Following the Commission's historic practice,<sup>84</sup> Commission Staff agreed with South Logan Water's methodology. Therefore, when the average Annual Principal and Interest Payments of \$184,653 is included, an additional \$36,931 is included in the revenue requirement as shown in the following table.

Description	Amount
Average Annual Principal and Interest	\$ 184,653
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	221,584
Less: Average Annual Principal and Interest Payments ( )	(184,653)
Additional Working Capital	<u>\$ 36,931</u>

<sup>83</sup> South Logan Water's Response to Filing Deficiencies, Attachments\_to\_Cover\_Letter.pdf, Attachment 2, Revised Statement of Adjusted Operations utilizing 2023 Test Year, Revenue Requirements.

<sup>84</sup> 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).

## RATE DESIGN

In its application, South Logan Water proposed to increase its monthly water service rates by 11.83 percent to all its water customers across the board.<sup>85</sup> South Logan Water stated that it did not consider filing a COSS at this time as there has been no material changes in the water system that would cause a new COSS to be prepared;<sup>86</sup> and it did not anticipate having a COSS performed.<sup>87</sup>

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.<sup>88</sup> Finding no such evidence in this case, Commission Staff allocated the \$156,081 revenue increase evenly across South Logan Water's monthly retail water service rates.

The rates, as calculated by Commission Staff, which are set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just, and reasonable, and will produce sufficient revenues from water sales to recover the \$1,360,201 Revenue Required from Water Sales, an approximate 12.96 percent increase. The new rates will increase the monthly bill of a typical residential customer

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<sup>85</sup> Application, Attachment 1, Revised Customer Notice (filed Oct. 7, 2024).

<sup>86</sup> South Logan Water's Response to Staff's First Request, Item 12a and 12b.

<sup>87</sup> South Logan Water's Response to Staff's First Request, Item 12c.

<sup>88</sup> Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

using approximately 4,000 gallons per month, from \$40.72 to \$46.01, an increase of \$5.29, or approximately 12.99 percent.<sup>89</sup>

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

Nonrecurring Charges. The Commission has found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges.<sup>90</sup> South Logan Water provided updated cost justification information for the Nonrecurring Charges<sup>91</sup> as well as a list of the number of occurrences for each of its Nonrecurring Charges.<sup>92</sup> Commission Staff reviewed the cost justification information provided by South Logan Water and adjusted these charges by removing the Field Labor Costs and the Office/Clerical Labor Costs from those charges that occur during normal business hours. Commission Staff also removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal

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<sup>89</sup> Application, Attachment 1, Revised Customer Notice (filed Oct. 7, 2024) (The average retail customer uses 4,000 gallons per month).

<sup>90</sup> 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).

<sup>91</sup> South Logan Water's Response to Staff's First Request, Item 15a. South Logan Water's Supplemental Response to Staff's First Request, Item 15a (Filed Jan. 14, 2025), [Cost\\_Justifications\\_for\\_Nonrecurring\\_Charges](#).

<sup>92</sup> South Logan Water's Response to Staff's First Request, Item 15.

business hours. Commission Staff did not remove Field Expense Labor Costs from Meter Test Charge at this time, since South Logan Water stated that the labor is being performed by an outside employee.<sup>93</sup> Commission Staff recommended the Commission require South Logan Water to remove Meter Re-read Charge (at customer's request) and Inspection Fee (New Meter Sets) from South Logan Water's current tariff considering the revised charge has been reduced to zero.<sup>94</sup>

The Commission finds that the Commission Staff's recommended removal of both charges from South Logan Water's current tariff is appropriate considering the provided cost justification for both charges consisted solely of labor expenses resulting from work performed during normal business hours and it should not be recovered through nonrecurring charges as previously mentioned.

The Commission Staff's proposed nonrecurring charges are listed below. The Commission finds that the Commission Staff's Report is consistent with recent Commission decisions, that labor expenses resulting from work performed during normal business hours should not be recovered through nonrecurring charges.<sup>95</sup> The Commission requires that charges be directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a

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<sup>93</sup> South Logan Water's Supplemental Response to Staff's First Request, Item 15a, Cost\_Justifications\_for\_Nonrecurring\_Charges.pfd at 8.

<sup>94</sup> Commission Staff's Report, at 6–7.

<sup>95</sup> 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).



special nonrecurring charge for service provided during normal working hours. For the reasons discussed above, the estimated labor expenses previously included in determining the rate of nonrecurring charges should be eliminated from the charges, as proposed by Commission Staff.

The breakdown of cost for each nonrecurring charge and any Commission Staff adjustment can be found in Appendix A.

Nonrecurring Charges	Current Charge	Revised Charge
Connection/Turn-on Charge (After Hours)	\$ 75.00	\$ 75.00
Meter Relocation Charge	Actual Cost	Actual Cost
Damage to Meter, Meter Setter, Box or Lid (Field visit plus equipment replaced)	Actual Cost	Actual Cost
Distribution Valve box damage	Actual Cost	Actual Cost
Meter Re-read Charge (At customer's request)	\$ 45.00	\$ -
Meter Re-read Charge (After hours)	\$ 75.00	\$ 51.00
Meter Test Charge	\$ 75.00	\$ 56.00
Disconnect/Reconnect for non-payment Charge	\$ 50.00	\$ 32.00
Reconnect for non-payment Charge (After Hours)	\$ 70.00	\$ 61.00
Returned Check Charge	\$ 35.00	\$ 7.00
Service Call/Investigation	\$ 55.00	\$ 25.00
Service Call/Investigation (After Hours)	\$ 85.00	\$ 75.00
Inspection Fee (New Meter Sets)	\$ 25.00	\$ -

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

Tap-On Fee. South Logan Water provided an updated cost justification for its 5/8-Inch x 3/4-Inch Meter, 1-Inch Meter, 1-1/2-Inch Meter, and 2-Inch Meter Connection/Tap-On Charge.<sup>96</sup> Commission Staff reviewed the cost justification information provided by South Logan Water and notes it supports an increase in the 5/8-Inch x 3/4-Inch Meter

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<sup>96</sup> South Logan Water's Supplemental Response to Staff's First Request, Item 15b, Meter\_Connections\_Cost\_Justifications.

and 2-Inch Meter Connection/Tap-On Charge. Commission Staff recommended that the Commission accept South Logan Water's proposed increase for the Tap-On fee from \$800 to \$1,104 for the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge and from \$1,900 to \$2,936 for the 2-Inch Meter Connection/Tap-On Charge. South Logan Water failed to provide proper cost justification sheets for 1-Inch and 1-1/2-Inch Meter Connection/Tap-On Charges, as such the Commission Staff recommended, the charges shall remain unchanged in South Logan Water's Tariff.

The Commission agrees with Commission Staff's recommendation to increase the 5/8-Inch x 3/4-Inch Meter and 2-Inch Meter Connection/Tap-On Charge to \$1,104 and to \$2,936, respectively, to reflect the current expenses incurred to install new taps, in order to prevent an under recovery for both tap fees. Increasing the tap fee rates in line with South Logan Water's actual cost will result in a fair, just or reasonable rate. In addition, over time, underrecovery of a particular charge will result in degradation of the utility's financial condition.

The Commission agrees with Commission Staff's recommendation of keeping 1-Inch and 1-1/2-Inch Meter Connection/Tap-On Charges unchanged, because the lack of sufficient evidence available for the Commission to determine an appropriate adjustment that would result in a fair, just or reasonable rate.

#### SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report, are supported by the evidence of record and are reasonable. Application of the DSC method to South Logan Water's pro forma operations results in an Overall

Revenue Requirement of \$1,399,079 and a \$156,081 revenue increase, or 12.96 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement. The rates contained in Appendix B to this order are fair, just and reasonable based on the evidence in the record.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by South Logan Water are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by South Logan Water on or after the date of this Order.
4. Within 20 days of the date of service of this Order, South Logan Water 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. 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. 2024-00203 DATED MAY 28 2025

\* Denotes Rounding

### Nonrecurring Charges Adjustments

Connection/Turn-on Charge (After Hours)			
	Utility Revised Charge		Staff Revised Charge
Field Materials	\$ -	\$	-
Field Labor (2hr @ overtime 32.16)	\$ 64.32	\$	64.32
Office Supplies	\$ -	\$	-
Office Labor	\$ -	\$	-
Transportation (Use of company truck)	\$ 10.68	\$	10.68
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 75.00	\$	75.00
Current Rate	\$ 75.00		

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

Damage to Meter, Meter Setter, Box or Lid (Field visit plus equipment replaced)			
	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

Distribution Valve box damage

	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
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Meter Re-read Charge (At customer's request)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor (Hourly pay to employee)	\$ 25.00	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ 19.44	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 44.44	\$ -

Current Rate	\$ 45.00
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Meter Re-read Charge (After hours)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor (Overtime rate)	\$ 37.50	\$ 37.50
Office Supplies	\$ -	\$ -
Office Labor	\$ 29.16	\$ -
Transportation	\$ 12.69	\$ 12.69
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 79.35	\$ 51.00

Current Rate	\$ 75.00
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Meter Test Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor (Wage/time outside employee)	\$ 30.56	\$ 30.56
Office Supplies	\$ -	\$ -
Office Labor	\$ 19.44	\$ -
Transportation	\$ 25.00	\$ 25.00
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 75.00	\$ 56.00

Current Rate	\$	75.00
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Disconnect/Reconnect for non-payment Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials (Lock)	\$ 12.00	\$ 12.00
Field Labor (Disconnect/reconnect travel time)	\$ 25.00	\$ -
Office Supplies (Ink/Paper)	\$ 5.00	\$ 5.00
Office Labor	\$ 9.74	\$ -
Transportation	\$ -	\$ -
Misc. (Fuel exp.)	\$ 15.00	\$ 15.00
Total Revised Charge*	<u>\$ 66.74</u>	<u>\$ 32.00</u>

Current Rate	\$	50.00
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Reconnect for non-payment Charge (After Hours)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor (Overtime wage)	\$ 37.50	\$ 37.50
Office Supplies	\$ -	\$ -
Office Labor	\$ 9.72	\$ -
Transportation	\$ 22.78	\$ 22.78
Misc.	\$ -	\$ -
Total Revised Charge*	<u>\$ 70.00</u>	<u>\$ 61.00</u>

Current Rate	\$	70.00
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Returned Check Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies (Postage/Envelope/Paper/Ink)	\$ 6.70	\$ 6.70
Office Labor	\$ 19.44	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	<u>\$ 26.14</u>	<u>\$ 7.00</u>

Current Rate	\$	35.00
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Service Call/Investigation

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 25.00	\$ -
Office Supplies (Computer/Paper)	\$ -	\$ -
Office Labor (Data entry)	\$ 9.72	\$ -

Transportation	\$	25.00	\$	25.00
Misc.	\$	-	\$	-
Total Revised Charge*	\$	59.72	\$	25.00
Current Rate	\$	55.00		

Service Call/Investigation (After Hours)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor (Overtime 2hr)	\$ 50.00	\$ 50.00
Office Supplies	\$ -	\$ -
Office Labor (19.44 @ 2)	\$ 38.88	\$ -
Transportation	\$ 25.00	\$ 25.00
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 113.88	\$ 75.00
Current Rate	\$ 85.00	

Inspection Fee (New Meter Sets)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor (Test for no leaks and customers connection to meter)	\$ 25.00	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 25.00	\$ -
Current Rate	\$ 25.00	



## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00203 DATED MAY 28 2025

The following rates and charges are prescribed for the customers in the area served by South Logan Water Association. 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" Meters

First	2,000	Gallons	\$ 27.14	Minimum Bill
Next	8,000	Gallons	0.00943	Per Gallon
Next	40,000	Gallons	0.00910	Per Gallon
Next	50,000	Gallons	0.00877	Per Gallon
Over	100,000	Gallons	0.00844	Per Gallon

##### 1" Meters

First	2,000	Gallons	\$ 51.32	Minimum Bill
Next	8,000	Gallons	0.00943	Per Gallon
Next	40,000	Gallons	0.00910	Per Gallon
Next	50,000	Gallons	0.00877	Per Gallon
Over	100,000	Gallons	0.00844	Per Gallon

##### 1 1/2" Meters

First	2,000	Gallons	\$ 73.05	Minimum Bill
Next	8,000	Gallons	0.00943	Per Gallon
Next	40,000	Gallons	0.00910	Per Gallon
Next	50,000	Gallons	0.00877	Per Gallon
Over	100,000	Gallons	0.00844	Per Gallon

##### 2" Meters

First	2,000	Gallons	\$ 112.37	Minimum Bill
Next	8,000	Gallons	0.00943	Per Gallon
Next	40,000	Gallons	0.00910	Per Gallon

Next	50,000	Gallons	0.00877	Per Gallon
Over	100,000	Gallons	0.00844	Per Gallon

### 3" Meters

First	2,000	Gallons	\$ 151.16	Minimum Bill
Next	8,000	Gallons	0.00943	Per Gallon
Next	40,000	Gallons	0.00910	Per Gallon
Next	50,000	Gallons	0.00877	Per Gallon
Over	100,000	Gallons	0.00844	Per Gallon

### 4" Meters

First	2,000	Gallons	\$ 195.52	Minimum Bill
Next	8,000	Gallons	0.00943	Per Gallon
Next	40,000	Gallons	0.00910	Per Gallon
Next	50,000	Gallons	0.00877	Per Gallon
Over	100,000	Gallons	0.00844	Per Gallon

Nonrecurring Charges	Revised Charge
Connection/Turn-on Charge (After Hours)	\$ 75.00
Meter Relocation Charge	Actual Cost
Damage to Meter, Meter Setter, Box or Lid (Field visit plus equipment replaced)	Actual Cost
Distribution Valve box damage	Actual Cost
Meter Re-read Charge (After hours)	\$ 51.00
Meter Test Charge	\$ 56.00
Disconnect/Reconnect for non-payment Charge	\$ 32.00
Reconnect for non-payment Charge (After Hours)	\$ 61.00
Returned Check Charge	\$ 7.00
Service Call/Investigation	\$ 25.00
Service Call/Investigation (After Hours)	\$ 75.00

### Meter Connection/Tap-On Charges

5/8-Inch X 3/4-Inch Meter	\$ 1,104.00
2-Inch Meter	\$ 2,936.00

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\*South Logan Water Association, Inc.  
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