

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ELKHORN)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2024-00331
PURSUANT TO 807 KAR 5:076)	

ORDER

On October 21, 2024,¹ Elkhorn Water District (Elkhorn District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076.

Elkhorn District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2022-00124.²

In its application, Elkhorn District requested rates that would increase its base rate revenue by \$22,830, or 5.58 percent, to pro forma present rate water revenues.³ To comply with the requirements of 807 KAR 5:076, Section 9,⁴ Elkhorn District used the calendar year ended December 31, 2023, as the basis for its application.

¹ Elkhorn District tendered its application on October 15, 2024. By letter dated October 17, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on October 21, 2024.

² See Case No 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*.

³ Application, Attachment 4, Revenue Requirements Table.

⁴ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated November 12, 2024.⁵ Elkhorn District responded to two rounds of discovery.⁶

Commission Staff issued its report (Commission Staff's Report) on March 18, 2025,⁷ summarizing its findings and recommendations regarding Elkhorn District's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that Elkhorn District's adjusted test-year operations support an overall revenue requirement of \$441,770 and that a \$26,954 revenue increase, or 6.59 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.⁸ The revenue requirement in Commission Staff's Report was a 118.1 percent of Elkhorn District's initial application and required re-notice, as discussed below. In the absence of a cost-of-service study (COSS), Commission Staff allocated its recommended revenue increase evenly across all customer classes to calculate its recommended water rates.

On March 26, 2025, Elkhorn District filed its response to the Commission Staff's Report.⁹ In its written comments, Elkhorn District requested that the Commission authorize the water rate assessment contained in the Appendix to the Commission Staff's Report. Elkhorn District also concurred with the remainder of the findings in the

⁵ Order (Ky. PSC, Nov. 12, 2024).

⁶ Elkhorn District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Dec. 6, 2024); Elkhorn District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Jan. 21, 2025).

⁷ Commission Staff's Report (Commission Staff's Report) (Ky. PSC, Mar. 18, 2025).

⁸ Commission Staff's Report at 5.

⁹ Elkhorn District's Response to Staff Report (filed Mar. 26, 2025).

Commission's Staff's Report and waived its right to request an informal conference or hearing in this case.

Consistent with 807 KAR 5:076, Section 11(3)(f), because Elkhorn District amended its application on March 26, 2025, when it accepted the water revenue increase recommended by Commission Staff that exceeded the 110 percent threshold,¹⁰ Elkhorn District was required to re-notice its customers.¹¹ Elkhorn District filed a publisher's certificate of publication for the re-notice on April 28, 2025.¹² Based on the certificate of publication, Elkhorn District did not publish the notice attached as an Appendix to the April 10, 2025 Order in its entirety. The Commission issued a show cause as to why the district did not publish the correct notice.¹³ Elkhorn District subsequently filed a corrected publisher's certificate of publication for the re-notice on May 29, 2025, and the case now stands submitted for a decision by the Commission.¹⁴

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

¹⁰ The recommended increase is 118.1% of Elkhorn District's requested increase.

¹¹ By Order issued April 10, 2025, Elkhorn District had 14 days to re-notice its customers.

¹² Elkhorn District's Affidavit of Public Notice Publication (filed Apr 28, 2025). Publication occurred on April 16, 2025.

¹³ Order (Ky. PSC May 13, 2025).

¹⁴ Elkhorn District's Affidavit of Public Notice Publication (filed May 29, 2025). Publication occurred on May 18, 2025.

law, the utility is allowed to charge its customers “only fair, just and reasonable rates.”¹⁵ 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

Elkhorn District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 592 residential customers and 8 commercial customers in Franklin County, Kentucky.¹⁶

UNACCOUNTED-FOR WATER LOSS

The Commission notes that, in its 2023 Annual Report, Elkhorn District reported water loss of 14.6653 percent.¹⁷ Elkhorn District stated that in preparation for its ARF application, it realized it had reported water sales of 14,139,000 gallons but only purchased 5,277,000 gallons in July 2023.¹⁸ Elkhorn District stated that it refunded a customer for a misread meter but did not reduce the gallons sold when it submitted its 2023 Annual Report, stating its actual water loss should have been 28.209 percent.¹⁹ Commission Staff reviewed Elkhorn District’s 2023 Annual Report in conjunction with its 2021 and 2022 Annual Reports and concluded that the revised water loss percentage in

¹⁵ *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).

¹⁶ *Annual Report of Elkhorn Water District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 11 and 49.

¹⁷ 2023 Annual Report at 57.

¹⁸ Application, Attachment 4, References, Reference C.

¹⁹ Application, Attachment 4, References, Reference C.

2023 is reasonable, given the water loss percentage²⁰ from the previous two years.²¹ The revised water loss calculation results in total water loss of \$61,672 and disallowed water loss above the 15 percent allowable in accordance with 807 KAR 5:066, Section 6(3) of \$28,879, as shown in the tables below.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 209,686	\$ 8,940	\$ 218,626
Water Loss Percent	28.2090%	28.2090%	28.2090%
Total Water Loss	<u>\$ 59,150</u>	<u>\$ 2,522</u>	<u>\$ 61,672</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 209,686	\$ 8,940	\$ 218,626
Water Loss Percent in Excess of 15%	13.2090%	13.2090%	13.2090%
Disallowed Water Loss	<u>\$ 27,698</u>	<u>\$ 1,181</u>	<u>\$ 28,879</u>

TEST PERIOD

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

SUMMARY OF REVENUE AND EXPENSES

Commission Staff’s Report summarizes Elkhorn District’s pro forma income statement as follows:

²⁰ 21.2967 water loss percentage in 2021 and 27.4527 water loss percentage in 2022.

²¹ *Annual Report of Elkhorn Water District to the Public Service Commission for the Calendar Year Ended December 31, 2021 (2021 Annual Report), Annual Report of Elkhorn Water District to the Public Service Commission for the Calendar Year Ended December 31, 2022 (2022 Annual Report), 2023 Annual Report.*

Description	Commission Staff's Report		
	Test Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 414,304	\$ (1,241)	\$ 413,063
Operating Expenses	385,188	(13,091)	372,097
Total Operating Income	\$ 29,116	\$ 11,850	\$ 40,966

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Elkhorn District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. Commission Staff calculated a different revenue requirement based on additional pro forma adjustments. The Commission approves the recommendations contained in the Commission Staff's Report. The Commission has no further modifications or adjustments. The following is the Commission's complete pro forma.²²

²² Commission Staff's Report at 7.

Description	Test Year	Elkhorn Water District Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
Operating Revenues						
Metered Retail Sales	\$ 414,304	\$ (4,280)		\$ (4,280)	A	
		(1,241)		(1,241)	A	\$ 408,783
Other Revenues						
Forfeited Discounts		3,489	0	3,489	B	3,489
Other Water Revenues		791	0	791	B	791
Total Operating Revenues	414,304	(1,241)	0	(1,241)		413,063
Operation and Maintenance						
Salaries and Wages - Employees	8,643		(8,643)	(8,643)	C	0
Salaries and Wages - Officers			7,200	7,200	D	7,200
Purchased Water	201,412		8,274	8,274	E	
		(26,605)	(1,093)	(27,698)	E	181,988
Purchased Power	8,940	(1,181)		(1,181)	F	7,759
Materials and Supplies	2,260			0		2,260
Contractual Services - Acct	8,520			0		8,520
Contractual Services - Other	78,575	(16,570)	(9,565)	(26,135)	G	52,440
Insurance- Gen. Liability	5,885			0		5,885
Advertising	135			0		135
Miscellaneous Expenses	35,880	1,159	7,325	8,484	H	44,364
Total	350,250	(43,197)	3,498	(39,699)		310,551
Depreciation Expense	34,082	25,689	368	26,057	I	60,139
Taxes Other Than Income	856		551	551	J	1,407
Total Operating Expenses	385,188	(17,508)	4,417	(13,091)		372,097
Net Operating Income	29,116	16,267	(4,417)	11,850		40,966
Interest Income	1,753			0		1,753
Income Available to Service Debt	\$ 30,869	\$ 16,267	\$ (4,417)	\$ 11,850		\$ 42,719

PRO FORMA OPERATING STATEMENT

Metered Retail Sales. Elkhorn District reported \$414,304 in its test-year metered retail sales. Elkhorn District stated that it recorded its forfeited discounts and Revenues from Nonrecurring Charges in the account Revenue from Metered Water Sales.²³ It proposed an adjustment to correct this misclassification by decreasing the Revenue from Metered Water Sales by \$4,280.²⁴ Elkhorn District also proposed a \$1,241 decrease to Revenue from Metered Water Sales to reconcile the amount with the current Billing

²³ Application, Attachment #4, References, Reference A.

²⁴ Application, Attachment #4, References, Reference A.

Analysis.²⁵ Commission Staff recommended accepting both proposed adjustments, which results in a pro forma amount of \$408,783 as the amounts are known and measurable because they are based on reliable information in the record and reflect values that have either already occurred or can be determined with reasonable certainty.²⁶

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be approved. This adjustment reflects verifiable usage and revenue data that were evaluated and normalized using the information provided in the record. The Commission finds that the methodology used to determine this adjustment is reasonable and consistent with regulatory principles.

Other Revenues. Elkhorn District did not have a test-year amount but proposed two pro forma adjustments.²⁷ As discussed in the Metered Retail Sales section above, Elkhorn District proposed a Forfeited Discounts increase of \$3,489 and an increase of \$791 for other water revenues, resulting in total other revenues of \$4,280.²⁸ Commission Staff recommended accepting the proposed adjustments to classify expenses in the proper account.²⁹

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be approved. The Commission finds that recording expenses in

²⁵ Application, Attachment #4, References, Reference B.

²⁶ Commission Staff's Report at 7-8.

²⁷ Application, Attachment #4, Schedule of Adjusted Operations.

²⁸ Application, Attachment #4, References, Reference A.

²⁹ Commission Staff's Report at 8.

the proper account is reasonable and consistent with regulatory accounting principles set forth in The Uniform System of Accounts for Class A/B Water Systems (USoA).³⁰

Salaries and Wages – Employees. Elkhorn District reported \$8,643 in the test year and proposed no pro forma adjustments.³¹ In response to Staff’s First Request, Elkhorn District stated it had no employees and that it recorded its commissioner wages in the Employee Salaries and Wages account.³² Commission Staff determined that a decrease of \$8,643 was required for Employee Salaries and Wages to reclassify commissioner salaries, \$7,200, and payroll taxes, \$551, to their respective correct accounts. The excess \$892 amount was identified as Payroll Expenses,³³ but Commission Staff could not locate the corresponding expenses in the general ledger and recommended removing the amount from the revenue requirement. Commission Staff recommended that the Commission accept the adjustment to record expenses in the proper accounts.³⁴

The Commission finds that Commission Staff’s recommended adjustments are reasonable and should be approved, and that recording expenses in the proper account is consistent with regulatory accounting principles set forth in The Uniform System of Accounts for Class A/B Water Systems (USoA).³⁵

³⁰ USoA Water Operating Revenues Accounts, at 120. Water Sales and Other Water Revenues, Accounts 470 Forfeited Discounts, 471 Miscellaneous Service Revenues, and 474 Other Water Revenues.

³¹ Application, Attachment #4, Schedule of Adjusted Operations.

³² Response to Staff’s First Request, Items 5 and 10.

³³ Elkhorn District’s Response to Staff’s First Request, Item 1, 2023 Cross Reference.

³⁴ Commission Staff’s Report at 8-9.

³⁵ USoA Water Operating Expenses, Account 603 Salaries and Wages Officers and Account 408.12 Taxes Other Than Income. Elkhorn District’s

Salaries and Wages – Officers. Elkhorn District did not include a test year amount for this account and did not propose any pro forma adjustments. As discussed in the Salaries and Wages – Employees section above, Commission Staff reclassified Elkhorn District’s commissioner wages to the correct account. Elkhorn District provided the training records³⁶ and fiscal court minutes³⁷ approving its commissioners’ wages. Elkhorn District pays each of its three commissioners \$200 a month, resulting in a pro forma yearly cost of \$7,200.³⁸ Commission Staff recommended that the Commission accept the reclassifications of Elkhorn District Commissioners’ salaries as the amounts are known and measurable in that they reflect a recurring and authorized expense that can be determined with reasonable certainty, and also to ensure the expenses are recorded in the proper account consistent with uniform accounting principles and accurate reporting of Elkhorn District’s operational costs.³⁹

The Commission finds that Commission Staff’s recommended adjustment is reasonable and should be approved as it is consistent with KRS 74.020(6), and the inclusion of Elkhorn District’s commissioners’ pay in its revenue requirement is appropriate and consistent with regulatory accounting principles set forth in The Uniform System of Accounts for Class A/B Water Systems (USoA).⁴⁰

³⁶ Elkhorn District’s Response to Staff’s First Request, Item 10, 10_Commissioner_Information.pdf.

³⁷ Elkhorn District’s Response to Staff’s Second Request, Item 2 Case_No_2022_00124_EWD_Staff_Report_Response.pdf.

³⁸ $\$200 * 3 * 12 = \$7,200$.

³⁹ Commission Staff’s Report at 9.

⁴⁰ USoA Water Operating Expenses, Account 603 Salaries and Wages Officers.

Purchased Water. Elkhorn District purchases water from Frankfort Plant Board. Elkhorn District reported \$201,412 in Purchased Water Expense in the test year and proposed one pro forma adjustment.⁴¹ The adjustment was a decrease of \$26,605 for water loss above the 15 percent allowable in accordance with 807 KAR 5:066, Section 6(3).⁴² Commission Staff calculated the pro forma cost using the gallons purchased⁴³ and rate from Frankfort Plant Board⁴⁴ and determined that a \$8,274 increase was necessary, as in the chart below.

Description	Amounts
Gallons	<u><u>73,833,230</u></u>
Current Purchase Rate	\$ 2.5500
KRAW fee	0.2900
Total Unit Cost	<u><u>\$ 2.8400</u></u>
Pro Forma Cost	\$ 209,686
Test Year Purchase Cost ()	(201,412)
Purchase Cost Adjustment	\$ 8,274
Water Loss Above 15%	13.2090%
Disallowed Water Loss Adjustment	<u><u>\$ 1,093</u></u>

As discussed in the water loss section above, Commission Staff determined that Elkhorn District’s statement that its reported water loss of 14.6653 percent in its 2023 annual report was incorrect and used Elkhorn District’s proposed water loss of

⁴¹ Application, Attachment #4, Schedule of Adjusted Operations.

⁴² Application, Attachment #4, References, Reference C.

⁴³ Elkhorn District’s Response to Staff’s First Request, Item 8, 2023 Purchased Water Bills.

⁴⁴ Frankfort Plant Board KRAW Fee, PSC KY No. 1, 3rd Revised Sheet No. 2 and Frankfort Plant Board Tariff, PSC KY No. 1, 1st Revised Sheet No. 1.

28.209 percent.⁴⁵ Commission Staff recommended an additional reduction of \$1,093 to Elkhorn District’s proposed disallowed water loss adjustment to account for the increased purchased water cost, as shown above, resulting in a total disallowed water loss of \$27,698, as shown in the chart below. Commission Staff recommended accepting the adjustments above because the amounts are known and measurable as they are based on reliable information in the record and reflect values that have either already occurred or can be determined with reasonable certainty.⁴⁶

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 209,686	\$ 8,940	\$ 218,626
Water Loss Percent	28.2090%	28.2090%	28.2090%
Total Water Loss	<u>\$ 59,150</u>	<u>\$ 2,522</u>	<u>\$ 61,672</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 209,686	\$ 8,940	\$ 218,626
Water Loss Percent in Excess of 15%	13.2090%	13.2090%	13.2090%
Disallowed Water Loss	<u>\$ 27,698</u>	<u>\$ 1,181</u>	<u>\$ 28,879</u>

The Commission finds that Commission Staff’s recommended adjustments are reasonable and should be approved because they reflect Elkhorn District’s actual purchased water cost. The Commission also finds that the methodology used to determine Commission Staff’s recommended water loss above 15 percent adjustment is reasonable and supported by the evidence provided in the case record.

⁴⁵ Application, Attachment 4, References, Reference C.

⁴⁶ Commission Staff’s Report at 10.

Purchased Power. Elkhorn District reported \$8,940 in purchased power expenses in the test year and proposed one pro forma adjustment.⁴⁷ Elkhorn District's adjustment was a reduction of \$1,181 for water loss above 15 percent. As discussed in the water loss section above, Commission Staff approved Elkhorn District's revised water loss of 28.209 percent and recommended accepting its proposed water loss above a 15 percent adjustment of \$1,181, resulting in a pro forma amount of \$7,759.⁴⁸

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be approved. The Commission also finds that the methodology used to determine Commission Staff's recommended water loss above 15 percent adjustment is reasonable and supported by the evidence provided in the case record.

Contractual Services Other. Elkhorn District reported a test-year amount of \$78,575 and proposed one pro forma adjustment.⁴⁹ Elkhorn District's adjustment was a reduction of \$16,570⁵⁰ to remove tap-fee expenses paid to a contractor for the meter installations.⁵¹ The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁵² Commission Staff capitalized the costs and made a corresponding adjustment to depreciation expense in that section below. During its

⁴⁷ Application, Attachment #4, Schedule of Adjusted Operations.

⁴⁸ Commission Staff's Report at 11.

⁴⁹ Application, Attachment #4, Schedule of Adjusted Operations.

⁵⁰ Commission Staff's Report included this amount as \$16,569 which was incorrect due to a rounding error. The calculated revenue requirement used the correct amount of \$16,570.

⁵¹ Application, Attachment #4, References, Reference D.

⁵² USoA, Accounting Instructions 19 and 33.

review of Elkhorn District's general ledger,⁵³ Commission Staff identified entries to be reimbursed by the Kentucky Infrastructure Authority (KIA). In its response to Staff's Second Request, Elkhorn District stated that the amount had not been reimbursed yet and was unable to determine if it would be reimbursed at the time of its response.⁵⁴ Commission Staff recommended removing the expenses from the account, in the amount \$9,565, because the expenses could not be established as a recurring amount. Commission Staff's recommended adjustments result in a pro forma amount of \$52,440.⁵⁵

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be approved. This adjustment reflects verifiable usage patterns and revenue data that were evaluated and normalized using the information provided in the record.

Miscellaneous Expense. Elkhorn District reported \$35,880 in Miscellaneous Expense in the test year and proposed one pro forma adjustment.⁵⁶ This adjustment was to account for an increased cost in its contract with Peaks Mill Water District.⁵⁷ In 2023, Peaks Mill Water District increased Elkhorn District's monthly payment for business and customer services to \$3.90 per customer, effective in 2024, to reflect Peaks Mill Water District's increase in business and customer service costs. Elkhorn District proposed to increase its Miscellaneous Expense by \$1,159 to account for this increase.⁵⁸ Commission

⁵³ Elkhorn District's Response to Staff's First Request, Item 1, 2023 General Ledger.

⁵⁴ Elkhorn District's Response to Staff's Second Request, Item 2.

⁵⁵ Commission Staff's Report at 11-12.

⁵⁶ Application, Attachment #4, Schedule of Adjusted Operations.

⁵⁷ Application, Attachment #4, References, Reference E.

⁵⁸ Application, Attachment #4, References, Reference E.

Staff reviewed the amended contract,⁵⁹ which showed an increased rate from \$2.71 per customer per month to \$3.90 per customer per month. Commission Staff reviewed the general ledger account and determined that \$2.71 was the amount charged based on Elkhorn District's customer count and the general ledger amount.⁶⁰ Commission Staff recalculated the adjustment based on the known contractual amount of \$3.90 on the chart below and recommended an increase of \$7,325 to Elkhorn District's adjustment, resulting in a total adjustment of \$8,484.

Description	Amount
Customers	600
Rate	\$ 3.90
Monthly Cost	<u>\$ 2,340</u>
Yearly Cost	\$ 28,080
Less Test Year ()	(19,596)
Less Elkhorn Adjustment ()	(1,159)
Staff Adjustment	<u>\$ 7,325</u>

Commission Staff did not propose any adjustments to the other expenses included in Miscellaneous Expense, resulting in a pro forma of \$45,220, as shown in the table below. Commission Staff recommended that the Commission accept Commission Staff's recommended adjustment because the amount is supported by the evidence in the case record.⁶¹

⁵⁹ Elkhorn District's Response to Staff's First Request, Item 3a, PPMWD and EWD Contract Amendment.
https://psc.ky.gov/tariffs/Water/Districts,%20Associations,%20%26%20Privately%20Owned/Peaks%20Mill%20Water%20District/xContracts/Elkhorn%20Water%20District/2024-01-10_1st%20Amendment%20to%20Agreement.pdf

⁶⁰ Elkhorn District's Response to Staff's First Request, Item 1a, 2023 General Ledger, Account 5020, Administrative Fee.

⁶¹ Commission Staff's Report at 13.

Description	Test Year	Adjustments	Pro Forma
Administrative Fee	\$ 19,596	\$ 8,484	\$ 28,080
Bank Charges	65		65
Membership dues	2,213		2,213
Miscellaneous	329		329
Office Expense	9,291		9,291
Postage	3,697		3,697
Utilities and Telephone	1,545		1,545
Total	<u>\$ 36,736</u>	<u>\$ 8,484</u>	<u>\$ 45,220</u>

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be approved. This adjustment reflects verifiable usage and revenue data that were evaluated and normalized using the information provided in the record.

Depreciation Expense. Elkhorn District reported \$34,082 in test year depreciation expense and proposed one pro forma adjustment.⁶² Elkhorn District proposed an increase of \$25,689 for assets placed in service in 2024 that were approved in Case No. 2020-00113,⁶³ which included pipe replacements, a booster pump station, a new master meter, and new customer meters.⁶⁴ Elkhorn District provided a table for the additions in its application.⁶⁵ Elkhorn District also stated that there were adjustments included to bring its assets to the midpoint set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled Depreciation Practices for Small Utilities. To evaluate the reasonableness of the depreciation practices of small water utilities, the

⁶² Application, Attachment #4, Schedule of Adjusted Operations.

⁶³ See Case No. 2020-00113, *Electronic Application of Elkhorn Water District for a Certificate of Public Convenience And Necessity to Replace 6600 LF of Pipeline, to Replace a Booster Pump Station, to Install a New Master Meter, and New Individual Meters, and to Refurbish an Existing Elevated Water Tank.*

⁶⁴ Application, Attachment #4, References, Reference F.

⁶⁵ Application Attachment #7b, Deprecation Schedule Pro Forma.

Commission has historically relied upon the NARUC study. 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. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff recommended that the Commission accept Commission Staff's proposed adjustment of \$25,689 based on Elkhorn District's adjustment with an additional adjustment of \$368 to capitalize tap fees as discussed in the Contractual Services-Other section above and shown in the chart below, as these adjustments are known and reasonable because they are supported by detailed documentation provided in the record, and reflect actual costs incurred for utility plant placed in service consistent with Commission precedent and depreciation guidelines.⁶⁶

Asset	Original Cost	NARUC Life	Depreciation
Tap Fees	\$ 16,569	45.00	\$ 368

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be approved given that there is no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.

Taxes Other than Income. Elkhorn District reported a test year amount of \$856 in Taxes Other than Income and proposed no pro forma adjustment.⁶⁷ As discussed in the Salaries and Wages – Employees section above, Commission Staff reclassified payroll

⁶⁶ Commission Staff's Report at 14.

⁶⁷ Application, Attachment #4, Schedule of Adjusted Operations.

taxes for its Commissioners in the amount of \$551.⁶⁸ Commission Staff recommended that the Commission accept the Commission Staff's adjustments as the amounts are known and reasonable because they are based on verifiable documentation included in the record, reflect actual or ongoing costs incurred by the utility, and are consistent with standard regulatory accounting practices historically accepted by the Commission.⁶⁹

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be approved. This adjustment reflects verifiable usage patterns and revenue data that were evaluated and normalized using the information provided in the record. The Commission finds that the methodology used to determine this adjustment is reasonable and consistent with regulatory accounting principles set forth in The Uniform System of Accounts for Class A/B Water Systems (USoA).⁷⁰

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2)

⁶⁸ $\$7,200 * 7.65\% = \551 .

⁶⁹ Commission Staff's Report at 15.

⁷⁰ USoA Water Operating Expenses, Account 408.12 Taxes Other Than Income.

recovery of depreciation expense, a non-cash item, to provide working capital;⁷¹ (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	Elkhorn Water District	Commission Approved
Pro Forma Operating Expenses	\$ 367,680	\$ 372,097
Average Annual Principal and Interest Payments	58,305	58,061
Additional Working Capital at 20%	11,661	11,612
Total Revenue Requirement	437,646	441,770
Other Revenue ()	(4,280)	(4,280)
Interest Income ()	(1,753)	(1,753)
Revenue Required From Water Sales	431,613	435,737
Revenue from Sales at Present Rates ()	(408,783)	(408,783)
Required Revenue Increase / (Decrease)	<u>\$ 22,830</u>	<u>\$ 26,954</u>
Percentage Increase / (Decrease)	<u>5.58%</u>	<u>6.59%</u>

Average Annual Principal and Interest Payments. Elkhorn District requested recovery of the average annual principal and interest on its indebtedness based on a three-year average of the annual principal, interest, and fee payments for the years 2024 through 2028.⁷² Commission Staff agreed with the methodology Elkhorn District proposed but used the years 2025 through 2029 as it would be more representative of

⁷¹ 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).

⁷² Application, Attachment 4, Table B, Debt Service Schedule.

Elkhorn District's payments after the rate case. This resulted in an average annual principal and interest payment of \$58,061, as shown in the chart below.⁷³

Year	Principal	Interest	Fees	Total
2025	34,827	21,381	2,024	58,232
2026	36,233	20,183	1,909	58,325
2027	37,660	18,926	1,791	58,377
2028	39,107	17,611	1,669	58,387
2029	40,774	15,188	1,024	56,986
Total	\$ 188,601	\$ 93,289	\$ 8,417	\$ 290,307
5 Year Average				\$ 58,061

The Commission finds that including \$58,061 in the revenue requirement calculation for average annual principal, as well as interest and fee payments for debt obligations, is reasonable, as it is known and measurable because they are based on reliable information in the record and reflect values that have either already occurred or can be determined with reasonable certainty. As such, the Commission accepts the recommendation.

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 exhibits, Elkhorn District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments, or \$11,661.⁷⁴ Following the Commission's historic practice of including additional working capital, Commission Staff agreed with Elkhorn District's proposed methodology but

⁷³ Commission Staff's Report at 16.

⁷⁴ Application, Attachment 4, Revenue Requirements Chart.

recommended additional working capital of \$11,612 because of the change in average annual principal and interest payments discussed above.⁷⁵

Description	Amount
Average Annual Principal and Interest Payments	\$ 58,061
Debt Service Coverage Ratio	120%
Total Net Revenues Required	69,673
Average Annual Principal and Interest Payments ()	(58,061)
Additional Working Capital	<u>\$ 11,612</u>

The Commission finds that including additional working capital of \$11,612 in the revenue requirement calculation is appropriate.

RATE DESIGN

In its application, Elkhorn District proposed to increase all its monthly retail water service rates by 5.58 percent evenly across the board.⁷⁶ Elkhorn District did not perform a cost of service study (COSS) as, at this time, there have been no material changes to its system. Elkhorn District indicated that a COSS would be appropriate if there are material changes to its system.⁷⁷

The Commission finds that the allocation of a revenue increase 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.⁷⁸ In the Commission Staff’s Report, Commission Staff followed the method

⁷⁵ Commission Staff’s Report at 17.

⁷⁶ Application, Attachment 4, Revenue Requirements Chart.

⁷⁷ Elkhorn District’s Response to Staff’s First Request, Items 15a, 15b, and 15c.

⁷⁸ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

proposed by Elkhorn District and allocated Commission Staff's calculated revenue increase across the board to Elkhorn District's monthly retail water service rates.⁷⁹

The rates calculated and set forth in the Appendix in this Order, are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will recover an increase of approximately 6.59 percent, which will produce sufficient revenues from water sales to recover the \$435,737 Revenue Required from Water Sales. The monthly bill of a typical residential customer using 6,680 gallons of water will increase from \$58.00 to \$61.82, an increase of \$3.82, or approximately 6.59 percent.

Nonrecurring Charges. In its final Order for Case No. 2022-00124, the Commission eliminated the recovery of Elkhorn District's labor costs from its nonrecurring charges.⁸⁰ Elkhorn District stated that there have been no significant changes to the costs that the Commission allowed Elkhorn District to recover from its nonrecurring charges in that case.⁸¹ Therefore, Commission Staff recommended no further changes to Elkhorn District's nonrecurring charges at this time.

The Commission finds that Commission Staff's recommendation is reasonable, and that Elkhorn District does not need any revised nonrecurring charges for the reasons discussed above.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission

⁷⁹ Commission Staff's Report at 5.

⁸⁰ 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), final Order.

⁸¹ Elkhorn District's Response to Staff's First Request, Item 19.

Staff's Report are supported by the evidence of record, are reasonable and should be accepted. By applying the Debt Service Coverage method, the Commission found that Elkhorn District's pro forma operations result in a Revenue Requirement from Rates of \$435,737 and that a \$26,954 revenue increase, or 6.59 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement of \$441,770.

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 Elkhorn District are denied.
3. The water service rates set forth in the Appendix to this Order are approved for service rendered by Elkhorn District on or after the date of this Order.
4. Within 20 days of the date of service of this Order, Elkhorn District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

Chairman



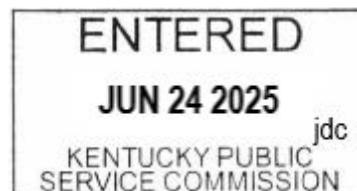
Vice-Chairman

Commissioner



ATTEST:


Executive Director



APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00331 DATED JUN 24 2025

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

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 gallons	\$ 22.13	Minimum bill
Next	3,000 gallons	0.00877	per gallon
Next	5,000 gallons	0.00796	per gallon
All Over	10,000 gallons	0.00627	per gallon

1-Inch Meter

First	5,000 gallons	\$ 48.50	Minimum bill
Next	5,000 gallons	0.00796	per gallon
All Over	10,000 gallons	0.00627	per gallon

1 ½-Inch Meter

First	10,000 gallons	\$ 88.37	Minimum bill
All Over	10,000 gallons	0.00627	per gallon

Elkhorn MHP #1 (formerly Southcreek MHP)

First	15,000 gallons	\$ 165.98	Minimum bill
All Over	15,000 gallons	0.00627	per gallon

Elkhorn Mobile Home Park

First	76,000 gallons	\$ 841.04	Minimum bill
All Over	76,000 gallons	0.00627	per gallon

Capital Mobile Home Park

First	125,000 gallons	\$ 1,383.28	Minimum bill
All Over	125,000 gallons	0.00627	per gallon

Emergency Wholesale Rate

\$0.00627 per gallon

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