

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTHEAST)	
WOODFORD COUNTY WATER DISTRICT FOR A)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR)	2025-00347
5:076)	

ORDER

On October 30, 2025,¹ Northeast Woodford County Water District (Northeast Woodford District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,² Northeast Woodford District used the calendar year ended December 31, 2024, as the basis for its application. Northeast Woodford District's last base rate increase, filed pursuant to the alternative rate filing procedure, was in Case No. 2022-00221.³ Since that matter, Northeast Woodford District has not adjusted its rates. To ensure the orderly review of the application, the Commission established a procedural

¹ Northeast Woodford District tendered its application on October 20, 2025. By letter dated October 28, 2025, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on October 30, 2025.

² The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

³ Case No. 2022-00221, *Electronic Application of Northeast Woodford County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 20, 2023).

schedule by Order dated November 21, 2025.⁴ Northeast Woodford District responded to three requests for information from Commission Staff (Staff).⁵

In its application, Northeast Woodford District requested an overall revenue requirement of \$913,964 to increase its annual water sales revenue by \$102,506, or 13.07 percent.⁶

On March 9, 2026, Staff issued its report (Staff's Report)⁷ summarizing its recommendations regarding Northeast Woodford District's requested rate adjustment. In its report, Staff found that Northeast Woodford District's pro forma operations support a total revenue requirement of \$899,752, and that an increase of \$89,734 or 11.44 percent,⁸ to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement. In the absence of a cost of service study (COSS), Staff allocated its recommended revenue increase evenly across the board of retail customers to calculate its recommended water rates.⁹

On March 20, 2026, Northeast Woodford District filed its response to Staff's Report.¹⁰ In its written comments, Northeast Woodford District provided the Woodford

⁴ Order (Ky. PSC Nov. 21, 2025).

⁵ Northeast Woodford District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Dec. 22, 2025); Supplemental Responses to Staff's First Request were filed February 9, 2026 and February 20, 2026; Northeast Woodford District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Jan. 31, 2026); Northeast Woodford District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Feb. 17, 2026).

⁶ Documents inadvertently excluded from ARF application (Excluded Documents) (filed Sept. 3, 2025), Revenue_Requirement_Calculation.pdf.

⁷ Staff's Report (issued Mar. 9, 2026).

⁸ Staff's Report at 4.

⁹ Staff's Report at 5.

¹⁰ Northeast Woodford District's Response to Staff's Report (filed Mar. 20, 2026).

County Fiscal Court (Fiscal Court) minutes authorizing commissioners' compensation of \$6,000 annually.¹¹ Northeast Woodford District requested the revenue requirement be revised to reflect the commissioners' salaries authorized by the Fiscal Court.¹² Additionally, Northeast Woodford District concurred with the remainder of the findings in Staff's Report¹³ and waived its right to request an informal conference or hearing.¹⁴

On March 24, 2026, Northeast Woodford District filed a response to Staff's Comments contained in the report.¹⁵ In its response, Northeast Woodford District confirmed that its 1-Inch Meter customers are billed the same rates as its 5/8-Inch x 3/4-Inch Meter customers and requested that the Commission include the 1-Inch Meters alongside its 5/8-Inch x 3/4-Inch Meters in the same rate block.¹⁶ In addition, Northeast Woodford District included in its response that no benefit would result from amending its rate design to establish a separate rate class for horse farm customers as several of the meters serve both horse farms and residential customers.¹⁷ Northeast Woodford District requested the Commission reject Staff's recommendation from the Staff Report to amend

¹¹ Northeast Woodford District's Response to Staff's Report, Item 1.

¹² Northeast Woodford District's Response to Staff's Report, Item 2.

¹³ Northeast Woodford District's Response to Staff's Report, Item 3.

¹⁴ Northeast Woodford District's Response to Staff's Report, Item 4.

¹⁵ Northeast Woodford District's Response to Staff's Comments contained in Staff's Report (filed Mar. 24, 2026).

¹⁶ Northeast Woodford District's Response to Staff's Comments contained in Staff's Report, Item 1.

¹⁷ Northeast Woodford District's Response to Staff's Comments contained in Staff's Report, Item 2.

its rate design to reclassify horse farm customers as commercial customers.¹⁸ 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."¹⁹ 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

Northeast Woodford 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 1,024 residential customers, and one commercial customer that reside in Woodford County, Kentucky.²⁰

¹⁸ Northeast Woodford District's Response to Staff's Comments contained in Staff's Report, Item 2.

¹⁹ *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).

²⁰ *Annual Report of Northeast Woodford District to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report) at 12 and 49.

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2024 Annual Report, Northeast Woodford District reported a water loss of 9.9425 percent.²¹ In its 2023 Annual Report, Northeast Woodford District reported a water loss of 2.0384 percent.²² In its 2022 Annual Report, Northeast Woodford District reported a water loss of 10.6960 percent.²³ Northeast Woodford District purchases 100 percent of its water²⁴ from the city of Versailles (Versailles) and the Frankfort Plant Board.²⁵ Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's unaccounted for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2024 total annual cost of unaccounted for water loss to Northeast Woodford District is \$47,026.

<u>Total Water Loss</u>	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Total</u>
Pro Forma Purchases	\$ 461,760	\$ 11,220	\$ 472,980
Water Loss Percent	9.9425%	9.9425%	9.9425%
Total Water Loss	<u>\$ 45,910</u>	<u>\$ 1,116</u>	<u>\$ 47,026</u>

²¹ 2024 Annual Report at 57.

²² *Annual Report of Northeast Woodford District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 57.

²³ *Annual Report of Northeast Woodford District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 58.

²⁴ 2024 Annual Report at 57.

²⁵ 2024 Annual Report at 54.

TEST PERIOD

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

SUMMARY OF REVENUE AND EXPENSES

Staff's Report summarized Northeast Woodford District's pro forma income statement as follows:

Description	2024 Test Year	Total Adjustments	Staff's Pro Forma
Total Operating Revenues	\$ 810,321	\$ (1,606)	\$ 808,715
Total Operating Expenses ()	(763,505)	(16,170)	(779,675)
Net Operating Income	46,816	(17,776)	29,040
Gain (Losses) Sale of Utility Property	1,700	(1,700)	-
Interest Income	1,303	-	1,303
Non Utility Income	23,512	(23,512)	-
Interest Expense	(21,533)	-	(21,533)
Income Available to Service Debt	<u>\$ 51,798</u>	<u>\$ (42,988)</u>	<u>\$ 8,810</u>

REVIEW AND MODIFICATION OF STAFF'S RECOMMENDATIONS

Northeast Woodford District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions, as well as proposed an across-the-board approach in applying the revenue increase. In Staff's Report, additional adjustments were recommended. As noted in the response to Staff's Report, Northeast Woodford District proposed increasing the Revenue Requirement to account for the salaries of commissioners as authorized by the Fiscal Court. The Commission accepts the recommendations contained in Staff's Report with two modifications that are discussed in more detail below. First, the Commission modified Staff's adjustment for Salaries and Wages – Officers to account for the inclusion of the Fiscal Court approved

compensation for commissioners, which resulted in an increase of \$7,200. Second, with the update to Salaries and Wages – Officers, Northeast Woodford District’s Taxes Other Than Income subsequently requires an adjustment. The adjustments resulted in an increase to the Revenue Requirement of \$7,751 from Staff’s Report. The following is the Commission’s complete pro forma:

Description	2024 Test Year	Total Adjustments	Staff's Pro Forma	Commission Adjustments	Commission Approved Pro Forma
Operating Revenues					
Total Retail Metered Sales	\$ 784,507	\$ (166)	\$ 784,341	\$ -	\$ 784,341
Other Revenues					
Other Water Revenues	25,814	(1,440)	24,374	-	24,374
Total Operating Revenues	810,321	(1,606)	808,715	-	808,715
Operation and Maintenance					
Salaries and Wages - Employees	16,696	(16,696)	-		
Salaries and Wages - Officers	-	16,696			
		(5,896)	10,800	7,200	18,000
Purchased Water	461,760	-	461,760	-	461,760
Purchased Power	11,220	-	11,220	-	11,220
Materials and Supplies	48,651	(15,439)	33,212	-	33,212
Contractual Services - Acct	12,920	-	12,920	-	12,920
Contractual Services - Management	50,913	-	50,913	-	50,913
Contractual Services - Other	57,167	20,688			
		8,412	86,267	-	86,267
Insurance - General Liability	6,053	-	6,053	-	6,053
Amortization - Rate Case	-	3,112	3,112	-	3,112
Miscellaneous Expenses	11,403	-	11,403	-	11,403
Total	676,783	10,877	687,660	7,200	694,860
Amortization	-	8,482	8,482	-	8,482
Depreciation Expense	84,186	(3,121)			
		386	81,451	-	81,451
Taxes Other Than Income	2,536	(454)	2,082	551	2,633
Total Operating Expenses	763,505	16,170	779,675	7,751	787,426
Net Operating Income	46,816	(17,776)	29,040	(7,751)	21,289
Gain (Losses) Sale of Utility Property	1,700	(1,700)	-		
Interest Income	1,303	-	1,303	-	1,303
Non Utility Income	23,512	(23,512)	-		
Interest Expense	(21,533)	-	(21,533)	-	(21,533)
Income Available to Service Debt	\$ 51,798	\$ (42,988)	\$ 8,810	\$ (7,751)	\$ 1,059

Billing Analysis. Northeast Woodford District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application.²⁶ Northeast Woodford District reported total metered water sales revenue of \$784,507 for the test year in its Schedule of Adjusted Operations (SAO).²⁷ Northeast Woodford District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year and using the rates authorized in its current tariff to be \$784,341. Northeast Woodford District proposed an adjustment to decrease test-year water sales revenue by \$166 to reflect the revenues from water rates generated by the billing analysis.²⁸ Staff agreed with the proposed adjustment of \$166 to decrease Total Retail Metered Sales to normalize the revenue from the billing analysis based on the usage during the test year using the rates authorized in Northeast Woodford District's tariff.²⁹

Staff's Report recommended the Commission accept Northeast Woodford District's proposed adjustment to decrease Total Retail Metered Sales by \$166 because the amount meets the rate making criteria of being known and measurable.³⁰

The Commission finds Northeast Woodford District's adjustment is reasonable and should be accepted. Northeast Woodford District's Metered Retail Sales should be

²⁶ Application, Attachment 6, Billing Analysis Existing Rates.

²⁷ Application, Attachment 4, Schedule of Adjusted Operations.

²⁸ Application, Attachment 4, Schedule of Adjusted Operations.

²⁹ Staff's Report at 8–9.

³⁰ Staff's Report at 8–9.

decreased by \$166, because the adjustment reflects verifiable usage and revenue data that was evaluated and normalized using the information provided in the record.

Other Water Revenues. Northeast Woodford District listed test-year Other Water Revenues of \$25,814, which included \$16,401 of Late Payment Penalties,³¹ \$2,100 of Reconnection fees,³² and \$7,313³³ for fire hydrant installations. Northeast Woodford District provided information about the nonrecurring charge revenue,³⁴ and Staff calculated an adjustment to Other Water Revenue, removing labor costs as discussed later in this Order. The adjustment to Nonrecurring Charges resulted in a decrease to Other Water Revenue of \$1,440 from reconnection fees, as shown in the table below.

Description	Test Year	Staff Adjustments	Total Adjustments	Pro Forma
Forfeited Discounts	\$ 16,401	\$ -	\$ -	\$ 16,401
Nonrecurring Charges	2,100	(1,440)	(1,440)	660
Fire Hydrants - Merry Meadow	7,313	-	-	7,313
Total	\$ 25,814	\$ (1,440)	\$ (1,440)	\$ 24,374

Staff's Report recommended the Commission accept the Staff's proposed adjustment to decrease Other Water Revenues by \$1,440 since Staff removed the field and office labor during normal business hours from Northeast Woodford District's cost justification documentation, as discussed in the Nonrecurring Charge section below.³⁵

³¹ Northeast Woodford District's Response to Staff's Second Request, NWCWD__Response_RFI-2.pdf, Item 4.

³² Northeast Woodford District's Response to Staff's Second Request, NWCWD__Response_RFI-2.pdf, Item 4.

³³ Northeast Woodford District's Response to Staff's Third Request, Item 10.

³⁴ Northeast Woodford District's Response to Staff's First Request, Item 13.

³⁵ Staff's Report at 9–10.

The Commission finds that Staff's adjustment is reasonable and should be accepted. The adjustment reflects the removal of labor expenses resulting from work performed during normal business hours as such expenses are already recovered as regular wages; thus, should not be recovered through nonrecurring charges.³⁶ Removing labor expenses that are already recovered in base rates allows for the marginal cost related to the nonrecurring service provided during normal working hours to be recovered through a special Nonrecurring Charge. For the reasons discussed below, the estimated labor expenses previously included in determining the nonrecurring charges should be eliminated from the charges, as proposed by Staff.

The Commission finds the revised Nonrecurring Charges as described in Appendix A to be reasonable, and Northeast Woodford District's Other Water Revenues should be reduced by \$1,440, because only the incremental costs related to the service should be recovered for services provided by current employees during normal business hours.

Salaries and Wages – Employees. In its application, Northeast Woodford District proposed an adjustment to increase Salaries and Wages – Officers by \$16,696³⁷ and decrease Salaries and Wages – Employees by the same \$16,696.³⁸ The adjustment is to correct the misclassification of Northeast Woodford District's commissioners' salaries

³⁶ 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), final Order at 8; 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), final Order at 10; 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), final Order at 10; and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024), final Order at 45-46.

³⁷ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment B.

³⁸ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment B.

as Salaries and Wages – Employees.³⁹ The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be accounted for in Salaries and Wages – Officers.⁴⁰ Staff agreed with Northeast Woodford District’s proposed adjustment to report the expense in the proper classification.⁴¹

Staff recommended the Commission accept Northeast Woodford District’s adjustment to decrease Salaries and Wages – Employees and increase Salaries and Wages – Officers by \$16,696 because it reflects the reclassification of the commissioners’ salaries into the correct account classification.⁴²

The Commission finds Northeast Woodford District’s adjustment is reasonable and should be accepted. Northeast Woodford District’s Salaries and Wages – Employees should be decreased by \$16,696 and Salaries and Wages - Officers should be increased by the same \$16,696, since the USoA requires the commissioner’s salaries be accounted for as part of Salaries and Wages – Officers not Salaries and Wages – Employees.

Salaries and Wages - Officers. In its application, Northeast Woodford District proposed to increase Salaries and Wages – Officers by \$1,504⁴³ to account for the annualization of commissioners’ salaries. During the test year, Northeast Woodford District recorded its commissioners’ salaries as part of Salaries and Wages –

³⁹ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment B.

⁴⁰ USoA, Water Operations and Maintenance Accounts, Account 603.

⁴¹ Staff’s Report at 10–11.

⁴² Staff’s Report at 10–11.

⁴³ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment C.

Employees.⁴⁴ As discussed in the Salaries and Wages – Employee adjustment, Staff agreed with Northeast Woodford District’s adjustment to reclassify the salaries as Salaries and Wages – Officers. Northeast Woodford District’s board of commissioners (Board) currently consists of three members - two are paid \$500 monthly and the treasurer is paid approximately \$517 monthly.⁴⁵ Northeast Woodford District provided the Fiscal Court’s minutes that authorized compensation for Board members.⁴⁶ Northeast Woodford District provided training records for its commissioners.⁴⁷ Staff reviewed the Fiscal Court minutes which indicated that the Fiscal Court set the Board’s compensation at \$3,600 annually.⁴⁸ Northeast Woodford District stated that, at the last meeting, the Fiscal Court was to make a decision to approve the increase in Board compensation. Without the Fiscal Court minutes authorizing additional compensation, the evidence in the record limited the compensation to \$3,600 for purposes of inclusion in the revenue requirement. Staff calculated a pro forma Salaries and Wages – Officers of \$10,800, a decrease of \$5,896 from the reclassified test year Salaries and Wages - Officers of \$16,696, and \$7,400 less than Northeast Woodford District’s proposed \$1,504 increase, as shown in the following table.⁴⁹

⁴⁴ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment C.

⁴⁵ Northeast Woodford District’s Response to Staff’s First Request, Item 11a.

⁴⁶ Northeast Woodford District’s Response to Staff’s First Request, Item 11b, 11b_Commissioner_Compensation.pdf.

⁴⁷ Northeast Woodford District’s Response to Staff’s First Request, Item 11c, 11c_Training_Certificates.pdf.

⁴⁸ Northeast Woodford District’s Response to Staff’s First Request, Item 11b, 11b_Commissioner_Compensation.pdf.

⁴⁹ Staff’s Report at 11–13.

Commissioners	Pro Forma Salaries
John S. Davis	\$ 3,600
Larry Moore	3,600
Megan Hoover	3,600
Total Salaries and Wages - Officers	10,800
Reclassified Test Year Salaries and Wages ()	(16,696)
Total Adjustment	(5,896)
Northeast Woodford District's Adjustment ()	(1,504)
Staff's Adjustment	<u>\$ (7,400)</u>

Staff recommended the Commission accept Staff's decrease of \$5,696 to Salaries and Wages – Officers, since that is the annualization of the Fiscal Court's authorized salaries for the commissioners.⁵⁰

The Commission finds that Staff's adjustment should be modified. As previously addressed, subsequent to Staff's Report, Northeast Woodford District provided the Fiscal Court's minutes showing authorization for the commissioner's individual compensation to be set at \$6,000 annually. Salaries and Wages – Officers Expense was increased by \$7,200. As shown in the following table, the Commission calculated a pro forma Salaries and Wages – Officers of \$18,000. This results in an increase to the Revenue Requirement of \$7,200 as shown in the following table.

⁵⁰ Staff's Report at 11–13.

Commissioners	Pro Forma Salaries
John S. Davis	\$ 6,000
Larry Moore	6,000
Megan Hoover	6,000
Total Salaries and Wages - Officers	18,000
Staff's Salaries and Wages - Officer's Adjustment ()	(10,800)
Revenue Requirement Increase	<u>\$ 7,200</u>

Expenses Related to Meter Installations. In its application, Northeast Woodford District proposed a decrease to Materials and Supplies of \$11,143,⁵¹ to account for the removal of labor used to install the new meters.⁵² The USoA requires that costs, such as tap fee expenses, be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁵³ During the test year, Northeast Woodford District had its contractor install seven new connections and replaced 12 existing malfunctioning meters.⁵⁴

Using the current tariff rate,⁵⁵ Staff calculated the labor cost for the installation of all 19 meters and agrees with Northeast Woodford Districts calculation of \$11,143.

Staff made an additional adjustment to account for the full material cost of the installation of the new meters instead of only the cost of the physical meter.⁵⁶ Northeast

⁵¹ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment D.

⁵² Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, References, Adjustment D.

⁵³ USoA, Accounting Instruction 19 and 33.

⁵⁴ Northeast Woodford District's Response to Staff's Third Request, Items 3 and 4.

⁵⁵ P.S.C. Ky, unnumbered Sheet, No. 3-4 (issued Jan. 20, 2023), effective Feb. 1, 2023.

⁵⁶ Staff's Report at 13 – 14.

Woodford District provided the cost of the physical meters installed during the test year;⁵⁷ and had already capitalized the cost of the 19 physical meters installed during the test year.⁵⁸ Staff calculated the total material cost for the installation of the new meter connections of \$7,051 and the amount of the physical meter cost already capitalized is \$2,755.⁵⁹ Therefore, Staff calculated an additional decrease to Materials and Supplies Expense of \$4,296 to account for the remaining materials cost for the new meters installed.⁶⁰ Both the Materials and Labor result in a net decrease to Materials and Supplies of \$15,439; as shown in the following table.

Description	Labor		Material	
	5/8-inch meter	1-inch meter	5/8-inch meter	1-inch meter
Meter Size				
Tariff Costs	\$ 599	\$ 565	\$ 768	\$ 1,103
Number of Replacement meters	10	2	-	-
Number of New Connections	2	5	2	5
Total Number of Meters Installed	12	7	2	5
Total Expenses per meter size	<u>\$ (7,188)</u>	<u>(3,955)</u>	<u>\$ (1,536)</u>	<u>(5,515)</u>
Total Capitalized Expenses		(11,143)		(7,051)
Amount Already Capitalized		-		2,755
Remaining Expense to be Capitalized		<u>\$ (11,143)</u>		<u>(4,296)</u>
Staff's Adjustment				(15,439)
Northeast Woodford District's Proposed Adjustment ()				11,143
Difference				<u>\$ (4,296)</u>

⁵⁷ Northeast Woodford District's Response to Staff's Third Request, Items 3 and 4.

⁵⁸ Northeast Woodford District's Response to Staff's Third Request, Items 3 and 4.

⁵⁹ Based on the information provided using the 5/8" had one cost. However, the 1-inch meters had two costs. The difference was immaterial. Staff used two 1-inch meters at \$550 and three 1-inch meters at \$371 in its calculation of already Capitalized New Meters.

⁶⁰ Staff's Report at 13-14.

Staff's Report recommended the Commission accept Staff's proposed net decrease to Materials and Supplies of \$15,439 the adjustment reflects both the proper accounting for water connection labor and material expenses according to the USoA.⁶¹

The Commission finds that Staff's adjustment is reasonable and should be approved. Northeast Woodford District's Materials and Supplies should be reduced by \$15,439, 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 placed in service and depreciated over their estimated useful lives.

Contractual Services – Other. In its application, Northeast Woodford District proposed an increase to Contractual Services – Other of \$20,688,⁶² to account for the annualization of a new contract providing billing and collection services.⁶³ During the test year, in June of 2024, Northeast Woodford District signed a contract with United Systems Software to provide billing services. While the contract was signed during the test year, it was not until after the test year, in June 2025, that the United Systems Software was installed, and Northeast Woodford District began making payments in July 2025.⁶⁴ The length of the contract is 36 months.⁶⁵ The monthly application and service charge

⁶¹ Staff's Report at 13–14.

⁶² Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment E.

⁶³ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, References, Adjustment E.

⁶⁴ Northeast Woodford District's Response to Staff's Third Request, Item 1.

⁶⁵ Northeast Woodford District's Response to Staff's Second Request, Item 1, 1_Utility_Process_Management_Agreement_2025, Item 4, page 1.

payments are \$1,724.⁶⁶ Staff agreed with Northeast Woodford District’s proposed increase to Contractual Services – Other of \$20,688 as shown in the following table.⁶⁷

Annual Fee	
Description	Amount
Monthly Billing & Collection - Contract Fee	\$ 1,724
Multiplied by: 12 Months	12
Annual Contract Fee	<u>\$ 20,688</u>

Staff’s Report recommended the Commission accept Northeast Wood District’s proposed increase to Contractual Services – Other of \$20,688, since that is the annualization of the new bookkeeping contract between United Systems Software and Northeast Woodford District.⁶⁸

The Commission finds that Northeast Woodford District’s adjustment is reasonable and should be accepted. Northeast Woodford District’s Contractual Services – Other Expense should be increased by \$20,688 to reflect an annualization of the new bookkeeping contract between United Systems Software and Northeast Woodford District.

Contractual Services – Other. During the test year, Northeast Woodford District reported \$57,167 of Contractual Services – Other and did not propose an adjustment. This expense category included Telephone Expense as well as the service agreement with Gatewood Water Services.⁶⁹ Northeast Woodford District provided a list of the

⁶⁶ Northeast Woodford District’s Response to Staff’s Second Request, Item 1, 1_Utility_Process_Management_Agreement_2025.

⁶⁷ Staff’s Report at 14–15.

⁶⁸ Staff’s Report at 14–15.

⁶⁹ Northeast Woodford District’s Response to Staff’s First Request, Item 3c, 3c_NWCWD_TB_Annual_Report_Reconciliatio.xlsx, Cell K44.

services provided by Gatewood Water Service as part of the agreement,⁷⁰ as well as the services that were provided on an individual basis.⁷¹ During the test year, Northeast Woodford District paid a monthly fee of \$4,675,⁷² which increased to \$5,376 effective January 2026.⁷³ Prior to January 6, 2026, Gatewood Water Service and Northeast Woodford District did not have a written agreement for the services provided to Northeast Woodford District.⁷⁴ Staff calculated an increase to pro forma Contractual Services – Other of \$8,412 to account for the increase in the monthly fee from \$4,675 to \$5,376 as shown in the following table.⁷⁵

Description	Amount
Monthly Fee	\$ 5,376
Previous Monthly Fee ()	(4,675)
Monthly Fee increase	701
Times 12 Months	12
Annual Increase	<u>\$ 8,412</u>

Staff’s Report recommended the Commission accept Staff’s increase of \$8,412 to Contractual Services – Other, since that is the annualization of the increase in the contracted monthly rate for services to Northeast Woodford District.⁷⁶

⁷⁰ Northeast Woodford District’s Response to Staff’s Third Request, Item 7 7_Dale_Gatewood_Northeast_Woodford_Contract.pdf.

⁷¹ Northeast Woodford District’s Response to Staff’s Third Request, Item 7, 7_Dale_Gatewood_Northeast_Woodford_Contract.pdf.

⁷² Northeast Woodford District’s Response to Staff’s Third Request, Item 7.

⁷³ Northeast Woodford District’s Response to Staff’s Third Request, Item 7.

⁷⁴ Northeast Woodford District’s Response to Staff’s Third Request, Item 7.

⁷⁵ Staff’s Report at 15–17.

⁷⁶ Staff’s Report at 15–17.

The Commission finds that Staff's adjustment is reasonable and should be accepted. Northeast Woodford District's Contractual Services – Other Expense should be increased by \$8,412 to reflect an annualization of the increase in the contractual rate for services.

Amortization – Rate Case Expense. In its application, Northeast Woodford District proposed an adjustment to increase Rate Case Expense by \$3,714⁷⁷ to reflect the amortization of current rate case expense over three years.⁷⁸

Northeast Woodford District contracted with Kentucky Rural Water Association (KRWA) to assist with the application.⁷⁹ KRWA provided an estimated total cost of \$9,335, but not to exceed a \$11,200 quote for consulting services to prepare the rate case.⁸⁰ Northeast Woodford District then proposed to amortize \$11,143 over three years for an annual amount of \$3,714.⁸¹

Staff agreed with the recovery of the costs over three years.⁸² Additionally, Staff reviewed the rate study proposal and calculated a different amount, recommend adopting the estimated total cost of \$9,335 without additional evidence of rate case expense exceeding this amount. Accordingly, Staff determined an annual cost of \$3,112 is

⁷⁷ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment F.

⁷⁸ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, References, Adjustment F.

⁷⁹ Northeast Woodford District's Response to Staff's First Request, Item 19e.

⁸⁰ Northeast Woodford District's Response to Staff's First Request, Item 19, 19a_KRWA_Rate_Study_Proposal.pdf.

⁸¹ Northeast Woodford District's Response to Staff's Second Request, Item 3, 3_NWCWD_Rate_Model.xlsx.

⁸² Staff's Report at 17–18.

required to recover the full cost of the estimated expense, which is a decrease of \$602 from Northeast Woodford District’s proposed adjustment, as shown below.⁸³

Description	Amount
Estimated Rate Case Expense	\$ 9,335
Amortization Years	3
Annual Rate Case Expense	3,112
Northeast Woodford District’s Adjustment ()	(3,714)
Staff’s Adjustment	<u>\$ (602)</u>

Staff’s Report recommended the Commission accept Staff’s increase of \$3,112 to Amortization Expense to reflect the recovery of the estimated Rate Case Expense over a three-year period.⁸⁴

The Commission finds Staff’s adjustment is reasonable and should be accepted. Northeast Woodford District’s Amortization Expense should be increased by \$3,112 because the amounts are known and measurable based upon the invoices in the case record. Additionally, the Commission finds that a three-year amortization of Northeast Woodford District’s rate case expense is reasonable and should be accepted, as this is the amount of time barring unusual circumstances, when Northeast Woodford District should, or is expected to file a new rate case.⁸⁵

⁸³ Staff’s Report at 17–18.

⁸⁴ Staff’s Report at 17–18.

⁸⁵ Case No. 2023-00191, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates, a Certificate of Public Convenience and Necessity for Installation of Advanced Metering Infrastructure, Approval of Regulatory and Accounting Treatments, and Tariff Revisions* (Ky. PSC May 3, 2024), Order at 23 (Note that a Rehearing Order was entered in this case on Nov. 6, 2024, but was unrelated to amortization of rate case expense).

Amortization – Billing Software. In its application, Northeast Woodford District proposed an adjustment to increase Amortization Expense by \$8,482⁸⁶ to reflect the three-year amortization of the initial installation costs for the billing system over the contract term.⁸⁷ During June 2024, Northeast Woodford District signed an agreement for the installation of new billing software with United Systems Software.⁸⁸ United System Software installed the customer billing in May 2025.⁸⁹ Northeast Woodford District submitted the contract for the initial cost of the upgrades needed.⁹⁰ Reviewing the contract, Staff calculated a total initial expense of \$25,445.⁹¹ Northeast Woodford District proposed to amortize the initial upgrade expense over a three-year contract period.⁹² Therefore, Staff agreed with Northeast Woodford District's proposed increase to Amortization Expense of \$8,482 for the cost of the initial billing software fees, as shown in the following table.⁹³

⁸⁶ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment E.

⁸⁷ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, References, Adjustment E.

⁸⁸ Northeast Woodford District's Response to Staff's Second Request, Item 1, 1_Utility_Process_Management_Agreement_2025.pdf.

⁸⁹ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment E.

⁹⁰ Northeast Woodford District's Response to Staff's Second Request, Item 1, 1_Utility_Process_Management_Agreement_2025.pdf.

⁹¹ Staff's Report, at 18–19.

⁹² Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment E.

⁹³ Staff's Report at 18–19.

Initial Set-up Fee	
Description	Amount
Initial UPM Setup Fee	\$ 1,500
Alliance Remote & Onsite Setup and Technical Services	13,700
Networking Remote & Onsite Setup and Technical Services	9,425
Utility Data Conversion with 2-Years of History	5,510
Original Software Purchase Credit	(4,690)
Total Initial Contract Fees	25,445
Divide by: Contract Period 3-Years	3
Annual Amortization - Setup Fee	<u>\$ 8,482</u>

Staff's Report recommended the Commission accept Northeast Woodford District's \$8,482 increase to Amortization Expense as well as the three-year period to reflect the amortization of the Billing Software upgrades over a three-year contract term.⁹⁴

The Commission finds that Northeast Woodford District's adjustments is reasonable and should be accepted. Northeast Woodford District's Amortization Expense should be increased by \$8,482 to reflect a three-year amortization of the initial cost of upgrades to the billing system, as this is the amount of time barring unusual circumstances, when Northeast Woodford District should, or is expected to file a new rate case.

Depreciation Expense. In its application, Northeast Woodford District proposed an adjustment to increase Depreciation Expense by \$4,873⁹⁵ to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Utilities* (NARUC Study).⁹⁶ To evaluate the

⁹⁴ Staff's Report at 18–19.

⁹⁵ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment G.

⁹⁶ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, References, Adjustment G.

reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the 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.⁹⁷ Upon examination, Staff agreed with Northeast Woodford District's methodology to adjust Depreciation Expense. However, Staff utilized different service lives from Northeast Woodford District in three sub-categories: Structures and Improvements, Tank Painting, and Computer and Communication Equipment.

Northeast Woodford District calculated the Depreciation Expense for Structures and Improvements and proposed to depreciate them over 40 years.⁹⁸ Staff used a 37.5-year service life for Structures and Improvements based on the NARUC study. Northeast Woodford District calculated the Depreciation Expense on Tank Painting utilizing a 10-year useful life. In its previous rate case, the Commission found that Northeast Woodford District's tank painting should have a service life of 15 years.⁹⁹ Therefore, Staff used the same 15-year service life for tank painting in this case. Finally, Northeast Woodford District calculated the Depreciation Expense on Computer and Communication

⁹⁷ 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.

⁹⁸ Northeast Woodford District's Response to Staff's First Request, Item 3d, 3d_NWCWD_Depreciation_Schedule_2024.xlsx.

⁹⁹ Case No. 2022-00221, *Electronic Application of Northeast Woodford County Water District for A Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan 20, 2023).

Equipment over a period of seven years.¹⁰⁰ The NARUC Study recommends a 10-year midpoint service life for Structures and Improvements.

Staff calculated a Depreciation Expense of \$81,065, which is \$3,121 less than the reported test year amount of \$84,186 and \$7,994 less than Northeast Woodford District's proposed \$4,873 increase to Depreciation Expense, as shown in the following table,

Asset Class	NARUC		Depreciation Adjustment	Pro Forma Depreciation
	Recommended Service Lives	Test Year Depreciation		
Structures and Improvements	35 - 40	\$ 2,101	\$ 5,325	\$ 7,426
Reservoirs & Tanks	30 - 60	24,391	-	24,391
Tank Painting	15	19,915	(6,638)	13,277
Transmission & Distribution Mains	50 - 75	25,709	(827)	24,882
Meters	35 - 45	8,451	49	8,500
Hydrants	40 - 60	32	46	78
Office Furniture and Equipment	20 - 25	-	-	-
Computer and Communication Equipment	10	3,587	(1,076)	2,511
Total Depreciation Expense		<u>\$ 84,186</u>	(3,121)	<u>\$ 81,065</u>
Northeast Woodford District's Adjustment ()			(4,873)	
Difference			<u>\$ (7,994)</u>	

Staff's Report recommended the Commission accept Staff's \$3,121 decrease to Depreciation Expense because it is a known and measurable change to reflect Depreciation Expense at the recommended NARUC midpoint service lives.¹⁰¹ Staff's Report reminded the district to review Commission Orders and maintain its accounting and expenses in accordance with those Orders.¹⁰²

¹⁰⁰ Northeast Woodford District's Response to Staff's First Request, Item 3d, 3d_NWCWD_Depreciation_Schedule_2024.xlsx.

¹⁰¹ Staff's Report at 19–21.

¹⁰² Staff's Report at 19–21.

The Commission finds that Staff's adjustment is reasonable and should be accepted. Northeast Woodford District's Depreciation Expense should be decreased by \$3,121 because it is a known and measurable amount that reflects USoA requirement for assets to be depreciated over their estimated useful lives. The Commission reminds the district to review Commission Orders and maintain its accounting and expenses in accordance with those Orders.

Capitalization of Tap Expenses. In the application, Northeast Woodford District proposed to increase Depreciation Expense by \$279¹⁰³ to account for the depreciation of \$11,143 in meter installation labor costs in 2024.¹⁰⁴ As discussed in the expenses related to water installations adjustment above, the expenses associated with 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.¹⁰⁵ As stated, during the test year Northeast Woodford District installed 19 new meters, only 7 of the meters, two 5/8-inch meters and five 1-inch meters, were new connections; the remaining 12 meters were replacements for malfunctioning meters.¹⁰⁶

¹⁰³ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment H.

¹⁰⁴ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, References, Adjustment H.

¹⁰⁵ USoA, Accounting Instruction 19 and 33.

¹⁰⁶ Northeast Woodford District's Response to Staff's Third Request, Items 3 and 4.

Staff agreed with Northeast Woodford District’s calculation for the depreciation of capitalized labor.¹⁰⁷ Northeast Woodford District capitalized the \$6,386 material cost for the new physical meters installed.¹⁰⁸

Description	Cost Per Meter	Number of Meters	Total
5/8-inch meter	\$ 271	10	\$ 2,710
1-inch meter	371	1	371
1-inch meter	550	1	550
Total		12	\$ 3,631

However, as also discussed in the Expenses related to Meter Installations adjustment above, Staff calculated the full material cost for the new connections and included that in the adjustment to Depreciation Expense. Staff calculated the full material cost for the new meters of \$7,051, and the cost for replacement meters of \$3,631 for a total of \$10,682. Northeast Woodford District already included \$6,386 in the test year’s depreciation calculation resulting in an increase of \$4,296. Staff then calculated that Depreciation Expense should be increased by \$386, which is \$107 more than Northeast Woodford District’s proposed \$279 adjustment shown in the following table.¹⁰⁹

¹⁰⁷ Staff’s Report at 21–23.

¹⁰⁸ Northeast Woodford District’s Response to Staff’s First Request, Item 3d, 3d_NWCWD_Depreciation_Schedule_2024.xls, Row 62.

¹⁰⁹ Staff’s Report at 21–23.

Description	All Meters Labor	New Meter Materials
Test Year Connections Expenses	\$ 11,143	\$ 7,051
New Meter Cost for Replacement Meters		3,631
	11,143	10,682
Already Capitalized ()	-	(6,386)
	11,143	\$ 4,296
Additional Expense to be Capitalized Divided by Recommended Useful Life	40	40
Adjustment to Depreciation	\$ 279	107
Total Adjustment		386
Northeast Woodford District's Proposed Adjustment ()		(279)
Staff's Adjustment		\$ 107

Staff recommended the Commission accept its \$386 increase to Depreciation Expense, to account for the proper accounting methodology, for the capitalization of labor costs and the full material costs for meter installations, since the USoA requires the assets to be depreciated over their estimated useful lives.¹¹⁰

The Commission finds that Staff's adjustment is reasonable and should be accepted. Northeast Woodford District's Depreciation Expense should be increased by \$386 because it is a known and measurable amount which reflects USoA requirement for the full cost of assets to be depreciated over their estimated useful lives.

Taxes Other Than Income – Federal Insurance Contribution Act (FICA). During the test year, Northeast Woodford District recorded Taxes Other Than Income of \$2,536,¹¹¹ which is composed of \$1,280 payroll taxes and \$1,256 PSC Assessments.¹¹² As explained above, Staff calculated Northeast Woodford District's total Salaries and

¹¹⁰ Staff's Report at 21–23.

¹¹¹ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations.

¹¹² Northeast Woodford District's Response to Staff's First Request, Item 3c, 3c_NWCWD_TB_Annual_Report_Reconciliatio.xlsx, Cells K72 and K73.

Wages – Officers of \$10,800.¹¹³ Staff calculated a pro forma Taxes Other Than Income of \$826, which is \$454 less than the \$1,280 test year recorded by Northeast Woodford District, as shown in the following table:

Description	Amount
Total Salaries and Wages	\$ 10,800
Times: 7.65 Percent FICA Rate	7.65%
Pro Forma Payroll Taxes	826
Test Year Payroll Taxes ()	(1,280)
Total Staff's Adjustment	<u>\$ (454)</u>

Staff's Report recommended the Commission accept Staff's calculated decrease of \$454 to Taxes Other Than Income, because it is a known and measurable change that is a direct result of changes to Salaries and Wages – Officers.¹¹⁴

The Commission finds that Staff's adjustment should be modified. As previously addressed in the Order, the Salaries and Wages – Officers was increased by \$7,200; therefore, Northeast Woodford District's pro forma Taxes Other Than Income requires a corresponding increase of \$551. The Commission calculated a pro forma Taxes Other Than Income of \$1,377, resulting in an increase to Revenue Requirement of \$551 as shown in the following table.

Description	Amount
Total Salaries and Wages	\$ 18,000
Times: 7.65 Percent FICA Rate	7.65%
Pro Forma Payroll Taxes	1,377
Staff's Total Payroll Taxes ()	(826)
Increase to Revenue Requirement	<u>\$ 551</u>

¹¹³ Staff's Report at 11–13.

¹¹⁴ Staff's Report, at 23–24.

Gain on Sale of Assets. In its application, Northeast Woodford District proposed to decrease Gain/Loss on Sale of Equipment by \$1,700¹¹⁵ to account for the gain on the sale of assets during the test year.¹¹⁶ Staff agreed with the proposed adjustment since the sale of equipment is a nonrecurring transaction, in the normal course of business and, therefore, should be removed from the test year.¹¹⁷

Staff's Report recommended the Commission accept Northeast Woodford District's \$1,700 decrease to Gain/Loss on Sale of Equipment since the sale of equipment will not recur and is, therefore, not representative of the normal course of business.¹¹⁸

The Commission finds that Northeast Woodford District's \$1,700 decrease to its Gain/Loss on Sale of Assets should be accepted as reasonable, since the sale of utility equipment is not expected to reoccur and is not indicative of standard utility operations and should not be included in the Pro Forma Revenue Requirement calculations.

Nonutility Operating Income – Unrecognized Gain. In its application, Northeast Woodford District proposed to decrease Nonutility Operating Income by \$23,512¹¹⁹ to reflect a removal of unrecognized gains on investments as a result of a transition to Edward Jones financial software and explained that these gains are not a recurring

¹¹⁵ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment I.

¹¹⁶ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, References, Adjustment I.

¹¹⁷ Staff's Report, at 24.

¹¹⁸ Staff's Report at 24.

¹¹⁹ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment J.

event.¹²⁰ In 2024, Northeast Woodford District switched to Edward Jones financial software, and recognized the value of the investment on the date it was installed, including any unrecognized gains.¹²¹ On December 31, 2024 the fair market value of its investments was \$498,648 and the prior year's value was \$475,128 resulting in an unrecognized gain of \$23,512.¹²²

The recognition of unrecognized gains or losses is a non-cash item and is made to adjust the proper balance to the asset account on the balance sheet and is neither an expense nor a revenue to Northeast Woodford District. These amounts should not be included in Nonutility Income for ratemaking purposes. Staff agreed with Northeast Woodford District's decrease of \$23,512 to Nonutility Operating Income, since unrecognized gains or losses do not involve actual transactions involving incomes or expenses and are simply bookkeeping transactions until the gain becomes recognized.¹²³

The Commission finds that Northeast Woodford District's adjustment is reasonable and should be accepted. Northeast Woodford District's Nonutility Operating Income should be decreased by \$23,512 because the recognition of unrecognized gains do not involve actual transactions involving revenues or expenses; and are only bookkeeping actions until recognized.

¹²⁰ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, References, Adjustment J.

¹²¹ Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment I.

¹²² Application, Attachment 4, 4__SAO_-With_Attachents.pdf, Schedule of Adjusted Operations, Adjustment I.

¹²³ Staff's Report at 24–25.

REVENUE REQUIREMENT

In the application, Northeast Woodford District proposed to calculate the Revenue Requirement using the Operating Ratio (OR) methodology.¹²⁴ The OR methodology¹²⁵ is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. The OR methodology is used to provide the utility with the necessary working capital to operate effectively. Staff has historically used an OR of 88 percent to calculate the additional working capital. If the Commission used the Debt Service Coverage methodology, Northeast Woodford District would recover \$73,408 for the Debt Service and Additional Working Capital, as shown in the following table.

<u>Description</u>	<u>Amounts</u>
Average Annual Principal and Interest	\$ 61,173
Additional Working Capital	12,235
Total Additional Working Capital	<u>\$ 73,408</u>

In contrast, Staff calculated that the OR methodology provided which \$107,376 additional working capital.¹²⁶ Due to Northeast Woodford District's calculated debt service requirement, the Additional Working Capital from the debt service recovery methodology would not provide Northeast Woodford District sufficient working capital to

¹²⁴ Application, Attachment 5, 5_Revenue_Requirement.pdf, Revenue Requirement – Operating Ratio.

¹²⁵ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

¹²⁶ Pro Forma Operating Expenses \$787,426 / 88 Operating Ratio Percent = \$894,802 Sub-Total. Sub-Total \$894,802 – Pro Forma Operating Expenses \$787,426 = \$107,376 Additional Working Capital.

operate effectively to provide adequate, efficient, and reasonable service. Therefore, Staff used the OR methodology to calculate the revenue requirement for Northeast Woodford District.¹²⁷

By applying the OR methodology, Staff calculated Northeast Woodford District's revenue requirement from Water Sales to be \$874,075.¹²⁸ A revenue increase of \$89,734, or 11.44 percent, is necessary to generate the overall revenue requirement of \$899,752.¹²⁹

Description	Northeast Woodford District	Commission Staff
Pro Forma Operating Expenses	\$ 792,181	\$ 779,675
Divide Operating Ratio	88%	88%
Subtotal	900,206	885,994
Average Annual Interest Expense	13,758	13,758
Total Revenue Requirement	913,964	899,752
Other Operating Revenue ()	(25,814)	(24,374)
Interest Income ()	(1,303)	(1,303)
Revenue Required from Rates	886,847	874,075
Normalized Revenues from Water Sales ()	(784,341)	(784,341)
Required Revenue Increase	<u>\$ 102,506</u>	<u>\$ 89,734</u>
Percentage Increase	<u>13.07%</u>	<u>11.44%</u>

The Commission finds Staff's calculation requires adjustment. Due to the changes in Salaries and Wages – Officers and the corresponding change to Taxes Other Than Income, the Commission has calculated that a Revenue Requirement Increase of

¹²⁷ Staffs Report at 26–27.

¹²⁸ Staff's Report at 27.

¹²⁹ Staff's Report at 27.

\$98,542 or approximately 12.56 percent is necessary to generate the overall revenue requirement of \$908,560, as shown in the following table.

Description	Staff's Pro Forma	Commission Approved Pro Forma
Pro Forma Operating Expenses	\$779,675	\$ 787,426
Divide Operating Ratio	88%	88%
Subtotal	885,994	894,802
Average Annual Interest Expense	13,758	13,758
Total Revenue Requirement	899,752	908,560
Other Operating Revenue ()	(24,374)	(24,374)
Interest Income ()	(1,303)	(1,303)
Revenue Required from Rates	874,075	882,883
Normalized Revenues from Water Sales ()	(784,341)	(784,341)
Required Revenue Increase	\$ 89,734	\$ 98,542
Percentage Increase	11.44%	12.56%

Average Annual Interest and Fees Payments. As discussed above, at the time of Staff's review, Northeast Woodford District had one outstanding RD loan¹³⁰ and one outstanding KIA loan.¹³¹ Northeast Woodford District provided the amortization schedules for its outstanding debt.¹³² Using the amortization tables, Staff calculated the average annual interest on a five-year average for the years 2026 through 2030. Staff calculated an average Interest Expense of \$13,758 as shown in the following table.

¹³⁰ Case No. 1995-00149, *In the Matter of the Application of Northeast Woodford County Water District of Woodford County, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023* (Ky. PSC May 17, 1995).

¹³¹ Case No. 2018-00351, *Electronic Application of The Northeast Woodford County Water District for a Certificate of Public Convenience and Necessity for Proposed Waterworks Improvements and for Authorization to Execute an Assistance Agreement with the Kentucky Infrastructure Authority to Finance Those Improvements* (Ky. PSC Nov. 6, 2018).

¹³² Application, Attachment 10, 10_Debt_Amortization_Schedule.pdf.

Debt	2026	2027	2028	2029	2030	Total
RD Bond	\$ 11,471	\$ 10,091	\$ 8,625	\$ 7,073	\$ 5,405	\$ 42,665
KIA Loan	5,866	5,551	5,231	4,904	4,572	26,124
Totals	<u>\$ 17,337</u>	<u>\$ 15,642</u>	<u>\$ 13,856</u>	<u>\$ 11,977</u>	<u>\$ 9,977</u>	<u>\$ 68,789</u>
Divided by 5 Years						5
Average Annual Interest Payments						<u>\$ 13,758</u>

Staff recommended the Commission accept Northeast Woodford District inclusion of \$13,758 to the Revenue Requirement to account for the average annual interest payments because the OR methodology allows for the recovery of Interest payments.¹³³

RATE DESIGN

In its application, Northeast Woodford District proposed a 13.07 percent rate increase to be allocated evenly across the board for all its water customers.¹³⁴ Northeast Woodford District has not performed a COSS.¹³⁵ Northeast Woodford District stated that it did not consider filing a COSS with the current rate application as there were no material changes in its system and that it would consider preparing a new COSS if material changes in customer usage patterns were to occur.¹³⁶ The Commission has previously found 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 methodology is unreasonable and in the absence of a COSS.¹³⁷

¹³³ Staff’s Report at 27–28.

¹³⁴ Application, 5_Revenue_Requirement.pdf.

¹³⁵ Northeast Woodford District’s Responses to Staff’s First Request, Item 13.

¹³⁶ Northeast Woodford District’s Responses to Staff’s First Request, Item 13.

¹³⁷ Case No. 2024-00155, *Electronic Application of Cannonsburg Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Apr. 8, 2025); Case No. 2024-00242, *Electronic Application of Wood Creek Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 21, 2025); and Case No. 2024-00068, *Electronic Application of Simpson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 29, 2024), and Case No. 2024-00002, *Electronic*

Finding no such evidence in this case and incorporating Commission's calculated pro forma revenue requirement, the Commission allocated the updated \$98,542 revenue increase across the board to Northeast Woodford District's monthly retail water service rates. The rates set forth in Appendix B to this order are based upon the updated pro forma revenue requirement, as calculated by the Commission, and will produce sufficient revenues from water sales to recover the \$882,883 revenue required from rates, an approximate 12.56 percent increase. These rates will increase a typical customer's monthly water bill using 13,919 gallons by \$8.83 from \$70.35 to \$79.19, an increase of approximately 12.56 percent.¹³⁸

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

Nonrecurring Charges. Staff reviewed Northeast Woodford District's Nonrecurring Charges. Previously, the Commission found that because district personnel are currently paid during normal business hours and the district recovers such expenses in base rates, already recovered estimated labor costs that are also included in determining the amount of Nonrecurring Charges should be eliminated from the charges.¹³⁹ Northeast Woodford

Application of Nebo Water District for a Rate Adjustment Pursuant to 807 KAR 5:076 (Ky. PSC Aug. 2, 2024).

¹³⁸ $\$79.19$ (Average Bill New Water Rates) - $\$70.35$ (Average Bill Current Water Rates) = $\$8.83$
(Total Difference in Customer Bill) ÷ $\$70.35$ (Average Bill Current Water Rates) = 12.56 percentage.

¹³⁹ 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).

District uses contracted personnel from Gatewood Water Service to perform all tasks related to Nonrecurring Charges.¹⁴⁰ While typically the Commission allows for utilities to recover the cost of the labor performed by contractors, the total expense for the contract with Gatewood Water Service was included as part of the Contractual Expenses when calculating the Revenue Requirement. In order to prevent a double recovery of expenses in this circumstance, the Commission finds that allowing Northeast Woodford District to include an additional labor expense in Nonrecurring Charges to be unreasonable.

Northeast Woodford District provided cost justification information for the nonrecurring charges.¹⁴¹ Staff reviewed and adjusted the charges performed by contract personnel, by removing Field Labor Costs and Office/Clerical Labor Costs that occur during normal business hours from the charges, as these are already recovered through base rates. Staff adjusted the mileage rate to the current standard mileage rate determined by the Internal Revenue Service (IRS) in the amount of \$0.725 per mile.¹⁴² Staff removed labor expenses as outlined in the table below:

Nonrecurring Charge	Current Charge	Revised Charge
Late Payment Charge	10%	10%
Reconnection Charge	\$ 69.00	\$22.00
Returned Payment Charge	\$ 5.00	\$ 5.00
Meter Deposit per Service Address	\$ 27.00	\$27.00

¹⁴⁰ Northeast Woodford District’s Responses to Staff’s Third Request, Item 11.

¹⁴¹ Northeast Woodford District’s Responses to Staff’s First Request, Item 17 or Current Tariff, Sheet No. 2.

¹⁴² <https://www.irs.gov/newsroom/irs-sets-2026-business-standard-mileage-rate-at-725-cents-per-mile-up-25-cents>.

The Commission finds that the Staff's recommended adjustments to the Nonrecurring Charges are appropriate considering the cost justification provided, and the amounts meet the ratemaking criteria of being known and measurable. The Commission agrees with the Staff's recommendation of not granting Northeast Woodford District any amount of Nonrecurring Charges labor performed by contractors as this may result in double recovery since the amount is already included in the revenue requirement calculations and will be recovered through rates. The Commission further finds that Staff's adjustment of the mileage rate to the current standard mileage rate determined by the Internal Revenue Service (IRS) in the amount of \$0.725 per mile is reasonable, and the revised Nonrecurring Charges as described above and in Appendix B should be accepted.

Staff Comments. In its review of Northeast Woodford District's tariff, Staff identified no tariff rate for the 1-inch meter connection or a 2-inch Tap-on fee.¹⁴³ In its response to Staff's Report, Northeast Woodford District confirmed that their 1-Inch meter customers are billed the same rates as their 5/8-Inch x 3/4-Inch Meter customers and requested the Commission to include the 1-Inch Meter alongside their 5/8-Inch x 3/4-Inch Meter in the same rate block.

In Northeast Woodford District's Customer Notice, the average monthly usage listed for a 5/8-Inch x 3/4-Inch Meter was 13,919 gallons.¹⁴⁴ In response to Staff's inquiry about the higher usage in this meter class, Northeast Woodford District responded that

¹⁴³ Staff's Report at 28.

¹⁴⁴ Staff's Report at 28.

customers using the 5/8-Inch x 3/4-Inch Meter included several horse farms.¹⁴⁵ Staff recommended that Northeast Woodford District amend its rate design to include a separate rate class for horse farms, such as Commercial, as a farm is essentially a business and not residential, or adding a Commercial rate class to clarify the revenue impact and identify specific revenue streams.¹⁴⁶ Northeast Woodford District stated, in response to Staff's Report, that no benefit would result from amending its rate design to establish a separate rate class for horse farm customers as several of those meters also provide residential service.¹⁴⁷

As a result of Northeast Woodford District's response to Staff's comments, the Commission agrees with Northeast Woodford District's request to expand the rate block for its 5/8-Inch x 3/4-Inch Meter to include the 1-Inch Meter because the billed rates are the same for both meter sizes. The Commission further finds that the 1-Inch Meter connection charge needs to be amended to "1-Inch Meter and Larger" in order to include the 2-inch meter connection charge as part of the Connection Fees. The Commission acknowledges Staff's Second Comment in the Staff Report, as previously mentioned, and requests Northeast Woodford District provide a COSS in its next base rate case and analyze its rate design to separate the residential class from the commercial class and agricultural class. Farms generally should be separated from residences, as they are essentially a business and not a residential dwelling, as each have different usage levels. Adding a commercial or agricultural rate class would clarify the revenue impact and

¹⁴⁵ Staff's Report at 29.

¹⁴⁶ Staff's Report at 28-29.

¹⁴⁷ Northeast Woodford District's Response to Staff Comments in Staff's Report (filed Mar. 24, 2026), Item 2.

identify specific revenue streams. Currently, the classes don't reflect actual usage, especially for residences.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Staff Report, along with the above-mentioned modifications, are supported by the evidence of record and are reasonable. Applying the OR Method to Northeast Woodford District's pro forma operations results in an Overall Revenue Requirement of \$908,560 and that a \$98,542 revenue increase, or 12.56 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Staff Report, as modified above, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Northeast Woodford District are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Northeast Woodford District on or after the date of this Order.
4. Northeast Woodford District shall provide a COSS related to separation of residential, commercial and agricultural classes in its next application for any type of base rate adjustment.
5. Within 20 days of the date of service of this Order, Northeast Woodford 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.

6. This case is closed and removed from the Commission's docket.

Entered on this 19th day of May, 2026.

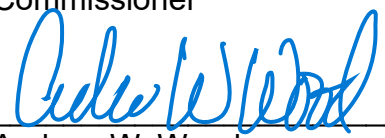
PUBLIC SERVICE COMMISSION



Angie Hatton
Chair



Mary Pat Regan
Commissioner



Andrew W. Wood
Commissioner

ATTEST:



Linda C. Bridwell, PE
Executive Director

Case No. 2025-00347

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2025-00347 DATED MAY 19 2026

* Denotes Rounding

Nonrecurring Charges Adjustments

	Reconnection Fee/Service Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$42.00 at .833 hours)	\$35.00	
Office Supplies	\$0.60	\$0.60
Office Labor	\$15.00	
Transportation	\$15.00	\$22.00
Misc.		
Total Revised Charge*	<u>\$65.60</u>	<u>\$22.00</u>
Current Rate	\$69.00	

	Returned Check Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor		
Office Supplies	\$5.00	\$5.00
Office Labor	\$25.00	
Transportation		
Misc.		
Total Revised Charge	<u>\$30.00</u>	<u>\$5.00</u>
Current Rate	\$5.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2025-00347 DATED MAY 19 2026

The following rates and charges are recommended by Staff based on the adjustments in Staff's Report for the customers in the area served by Northeast Woodford County Water District. All other rates and charges not specifically mentioned herein shall remain the same.

Monthly Water Rates

5/8- X 3/4-Inch and 1-Inch Meter

First	2,000 Gallons	\$17.05	Minimum Bill
Next	2,000 Gallons	0.00564	Per Gallon
Next	6,000 Gallons	0.00523	Per Gallon
Over	10,000 Gallons	0.00497	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$110.18	Minimum Bill
Over	20,000 Gallons	0.00497	Per Gallon

Connection Fee

5/8- x 3/4-Inch Water Tap On	\$1,366.96
1-Inch Water Tap On and Larger	\$1,668.10

Nonrecurring Charges

Reconnection Fee/Service Charge	\$22.00
Returned Check Charge	\$5.00
Meter Deposit per Service Address	\$26.62

Service List for 2025-00347

* Robert K. Miller
Straightline Kentucky LLC
113 North Birchwood Ave.
Louisville, KY 40206

* Mark Frost
110 Woodford Place
#1
Harrodsburg, KY 40330

* Northeast Woodford County Water District
225A South Main Street
Versailles, KY 40383

* Mary Shryock
Northeast Woodford County Water District
225A South Main Street
Versailles, KY 40383

* John S Davis
Chairman
Northeast Woodford County Water District
225A South Main Street
Versailles, KY 40383