

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH)	CASE NO.
MARSHALL WATER DISTRICT FOR A RATE)	2025-00102
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

O R D E R

On April 10, 2025, North Marshall Water District (North Marshall 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 9,¹ North Marshall District used the calendar year ended December 31, 2023, as the basis for its application. An application filed on or after March 31 of 2025, would generally use a 2024 test year; however, on March 3, 2025, North Marshall District requested an extension the filing of its 2024 annual report to May 31 and an extension was granted.² North Marshall District's last base rate increase, filed pursuant to the alternative rate filing procedure, was in Case No. 2023 00134.³ Since that matter, North Marshall District has not adjusted its rates.

¹ 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.

² *Annual Report of North Marshall District to the Public Service Commission for the Calendar Year Ended December 31, 2024*. This report had been filed with the Commission but was under review and had not been published on the Commission's website at the time of the application filing.

³ Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*. (Ky. PSC, Dec. 22, 2023).

On April 15, 2025, North Marshall District made a filing stating it had discovered an error in publication of notice⁴ and corrected it by a subsequent publication.⁵ North Marshall District provided proof that its first notice was published on April 17, 2025, in the *Tribune-Courier*, a newspaper of general circulation.⁶ Pursuant to 807 KAR 5:076, Section 5(2)(b)(3), notice should have been published no later than April 10, 2025, the date the application was deemed filed.⁷

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated April 30, 2025. North Marshall District timely responded to three requests for information from Commission Staff (Staff).⁸

In its application, North Marshall District requested an overall revenue requirement of \$2,551,319 to increase its annual water sales revenue by \$240,590, or 10.09 percent.⁹ On August 26, 2025, Staff issued Staff's Report¹⁰ summarizing its recommendations regarding North Marshall District's requested rate adjustment. In its report, Staff found that North Marshall District's adjusted test-year operations support a total revenue

⁴ North Marshall District's Notice of Publication Error for Customer Notice and Corrective Action, (filed Apr. 14, 2025) NMWD_Letter_Ad_Case_No._2025-00102.pdf.

⁵ North Marshall District's Corrected Customer Notice, (filed Apr. 30, 2025), April_17_25Corrected_public_notice.pdf.

⁶ North Marshall District's Corrected Customer Notice, (filed Apr. 30, 2025), April_17_25Corrected_public_notice.pdf.

⁷ 807 KAR 5:076, Section 5(2)(b)(3).

⁸ North Marshall District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Jun. 17, 2025). North Marshall District's Response to Staff's Second Request for Information (Staff's Second Request) (filed Aug. 4, 2025). North Marshall District's Response to Staff's Third Request for Information (Staff's Third Request) (filed Dec. 15, 2025).

⁹ Application, Attachment_1_6_6_NMWD_List_of_Attachments.pdf, Revenue Requirements Table.

¹⁰ Staff's Report (Ky. PSC Aug. 26, 2025).

requirement of \$2,659,834, an increase of \$236,033, or 9.90 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.¹¹ North Marshall District contracted with Kentucky Rural Water Association (KRWA) to develop rates based on a cost of service study (COSS) for the preparation of this case.¹² North Marshall District provided a copy of the most recent COSS performed for the system.¹³ Staff allocated its recommended revenue increase employing the same method as the COSS provided by North Marshall District to calculate its recommended water rates.¹⁴

On September 9, 2025, North Marshall District filed its response to Staff's Report and provided three comments.¹⁵ First, North Marshall District reserved the right to contest specific recommendations listed but accepted the recommended Revenue Requirement.¹⁶ Provided that Staff's Report's recommended Revenue Requirement was accepted without change, North Marshall District waived its right to request an informal conference or hearing.¹⁷ Second, while North Marshall District accepted Staff's recommended Revenue Requirement, North Marshall District objected to Staff's use of the COSS calculations to determine water rates.¹⁸ North Marshall District stated that the use of the COSS to calculate rates created an undue burden on residential, low volume

¹¹ Staff's Report at 5.

¹² North Marshall District's Response to Staff's First Request, Item 12a.

¹³ North Marshall District's Response to Staff's First Request, Item 12d.

¹⁴ Staff's Report at 6.

¹⁵ North Marshall District's Response to Staff's Report (filed Sep. 9, 2025).

¹⁶ North Marshall District's Response to Staff's Report, Item 1.

¹⁷ North Marshall District's Response to Staff's Report, Item 1.

¹⁸ North Marshall District's Response to Staff's Report, Item 2.

users and low income customers and requested the Commission apply an across-the-board percentage increase method.¹⁹ Third, while North Marshall District accepted Staff's recommended Revenue Requirement, North Marshall District objected to the removal of labor costs from nonrecurring charges.²⁰ North Marshall District stated that it provided the cost justification sheets and further requested the Commission establish nonrecurring charges at the level supported by the cost justification sheets provided.²¹ North Marshall District argued that its proposed inclusion of labor costs is supported by 807 KAR 5:006, Section 9.²²

Pursuant to an Order issued on January 5, 2026,²³ a virtual informal conference (IC) was held on January 6, 2026 and representatives of North Marshall District participated in the virtual conference with Commission Staff to discuss an error identified in the Staff Report related to the revenue requirement arising from the District Manager's salary and the full-time/part-time status of another employee as explained in more detail below.²⁴ At the IC, Staff explained the error, correction, and corresponding adjustments and North Marshall District tentatively indicated that it would want the adjustment to be made.²⁵ Staff requested that North Marshall District make a filing within seven days indicating its position regarding the correction of the error and acceptance of the

¹⁹ North Marshall District's Response to Staff's Report, Item 2.

²⁰ North Marshall District's Response to Staff's Report, Item 3.

²¹ North Marshall District's Response to Staff's Report, Item 3.

²² North Marshall District's Response to Staff's Report, Item 3.

²³ Order (Ky. PSC Jan. 5, 2026).

²⁴ Informal Conference (IC) memorandum of January 6, 2026, filed into the record January 8, 2026.

²⁵ IC memorandum of January 6, 2026, filed into the record January 8, 2026.

additional adjustment and indicated that if no such filing was made, that it would be assumed that the tentative position provided at the IC and discussed herein remained North Marshall District's position.²⁶ North Marshall District did not make a filing after the IC.

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."²⁷ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

Commission regulation 807 KAR 5:076, Section 5(2)(b)(3), states, "If a utility has more than twenty (20) customers, it shall provide notice by: . . . Publishing notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made no later than the date the application is submitted to the commission."

²⁶ IC memorandum of January 6, 2026, filed into the record January 8, 2026.

²⁷ *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).

BACKGROUND

North Marshall 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 5,416 residential customers, 291 commercial customers, and four multiple family dwellings that reside in Livingston and Marshall counties, Kentucky.²⁸

UNACCOUNTED-FOR WATER LOSS

North Marshall District produces 100 percent of its water.²⁹ The Commission notes that in its 2021 Annual Report, North Marshall District reported a water loss of 25.8658 percent,³⁰ and 22.6164 percent for 2022.³¹ In its 2023 Annual Report, North Marshall District reported a water loss of 18.8691 percent.³² Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. While the Commission commends North Marshall District for what appears to be a trend of a reduction in water loss, the Commission encourages North Marshall District to continue to be diligent in its reduction efforts. The table below shows that the 2023 total annual cost of water loss to North Marshall District is \$37,357, while the annual cost of water loss in excess of 15 percent is \$7,660.

²⁸ *Annual Report of North Marshall District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 12 and 49.

²⁹ 2023 Annual Report at 57.

³⁰ *Annual Report of North Marshall District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 57–58.

³¹ *Annual Report of North Marshall District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 57–58.

³² 2023 Annual Report at 58.

Total Water Loss	Purchased			
	Power	Chemicals		Total
Total Adjusted Expenses	\$ 166,835	\$ 31,147	\$	197,982
Water Loss Percent	18.8691%	18.8691%		18.8691%
Total Water Loss	\$ 31,480	\$ 5,877	\$	37,357

Disallowed Water Loss	Purchased			
	Power	Chemicals		Total
Total Adjusted Expenses	\$ 166,835	\$ 31,147	\$	197,982
Water Loss in Excess of 15%	3.8691%	3.8691%		3.8691%
Disallowed Water Loss	\$ 6,455	\$ 1,205	\$	7,660

TEST PERIOD

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

SUMMARY OF REVENUE AND EXPENSES

The Staff's Report summarizes North Marshall District's pro forma income statement as follows:

Description	2023 Test Year	Total Adjustments	Staff's Pro Forma
Total Operating Revenues	\$ 2,036,152	\$ 381,611	\$ 2,417,763
Total Operating Expenses ()	(2,110,705)	(133,899)	(2,244,604)
Net Operating Income	(74,553)	247,712	173,159
Interest Income	6,038	-	6,038
Income Available to Service Debt	\$ (68,515)	\$ 247,712	\$ 179,197

REVIEW AND MODIFICATION OF STAFF'S RECOMMENDATIONS

In its application, North Marshall District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions, as well as utilizing the COSS instead of an across-the-board rate approach. In Staff's Report, Staff

recommended additional adjustments. The Commission finds that the recommendations contained in Staff's Report should be approved with modifications.

In its application, North Marshall District proposed adjustments of its Employee Benefits insurance contribution expenses in line with the annual Bureau of Labor Statistics (BLS) survey and the Willis Towers Watson (Willis) national averages survey. During discovery, the Commission inquired if North Marshall would have made the adjustment to its employee benefits if the BLS and Willis surveys were not considered. North Marshall District stated that it would not have proposed the adjustment and believed it was appropriate to provide its individual employees 100 percent and dental insurance, and its family members 75 percent health and 100 percent dental.³³ Pursuant to North Marshall District's amended request, the Commission accepts North Marshall District's proposed employee contribution percentages toward health and dental benefits.³⁴ This results in an increase of \$25,037 to the revenue requirement recommended by Staff.

The Commission determined Staff made two errors in Staff's Report that will adjust the revenue requirement in addition to the adjustment to Employee Benefits. In the calculation Salaries and Wages – North Marshall District's General Manager's current Salary is \$100,000 annually;³⁵ however, Staff mistakenly entered \$10,000,³⁶ thereby understating Salaries and Wages by \$90,000. Additionally, Staff normalized the hours

³³ North Marshall District's Response to Staff's Third Request, Item 1a.

³⁴ North Marshall District's Response to Staff's Third Request, Item 1a.

³⁵ North Marshall District's Response to Staff's Second Request, Item 3, 3_NMWD_Employee_Data.xlsx, 2025 Tab, Cell G3.

³⁶ Staff's Report at 15.

worked for Employee 11 to 2,080;³⁷ however, since they are a part-time employee, Staff should have used the actual test-year hours worked of 905³⁸ overstating Salaries and Wages – Employees by \$23,505 resulting in a net increase to Salaries and Wages – Employees of \$66,495. These errors were addressed with North Marshall District at the IC held on January 6, 2026.³⁹

With the correction to Salaries and Wages – Employees expense, North Marshall District's Employee Pensions expense and Taxes Other Than Income required adjustment. All four adjustments together result in an increase to the Revenue Requirement of \$102,893. The following is the Commission's complete pro forma:

³⁷ Staff's Report at 15.

³⁸ North Marshall District's Response to Staff's Second Request, Item 3, 3_NMWD_Employee_Data.xlsx, 2024 Tab, Cell D19.

³⁹ IC memorandum of January 6, 2026, filed into the record January 8, 2026.

Description	2023 Test Year	Total Adjustments	Staff's Pro Forma	Commission Adjustment	Commission Approved Pro Forma
Operating Revenues					
Sales to Residential Customers	\$ 1,614,963		\$ 1,614,963	\$ -	\$ 1,614,963
Sales to Commercial Customers	311,634		311,634	-	311,634
Sales to Municipal Family Dwellings	2,892		2,892	-	2,892
Sales for Resale	60,318		60,318	-	60,318
		394,781	394,781	-	394,781
Other Revenues					
Forfeited Discounts	23,106	-	23,106	-	23,106
Misc. Services Revenues	22,639	(13,170)	9,469	-	9,469
Other	600	-	600	-	600
Total Operating Revenues	2,036,152	381,611	2,417,763	-	2,417,763
Operation and Maintenance					
Salaries and Wages - Employees	670,301	160,638 (19,750)	811,189	66,495	877,684
Salaries and Wages - Officers	30,200	-	30,200		30,200
Employee Benefits	151,905	57,066 (62,616)	146,355	22,032	168,387
Employee Pensions - (CERS)	88,431	90,433 (39,514)			
		19,941	159,291	9,279	168,570
Purchased Power	166,835	(6,455)	160,380		160,380
Chemicals	31,147	(1,205)	29,942		29,942
Materials and Supplies	236,278	(46,084) (33,258)	156,936		156,936
Contractual Services - Management Fees	6,000		6,000		6,000
Contractual Services. - Acct	17,250		17,250		17,250
Contractual Services - Legal	1,670		1,670		1,670
Contractual Services - Water testing	25,862		25,862		25,862
Contractual Services - Other	82,525		82,525		82,525
Rental of equipment	1,316		1,316		1,316
Transportation Expenses	41,542		41,542		41,542
Insurance - General Liability & Workers Comp.	64,045		64,045		64,045
Insurance - Other	790		790		790
Advertising Expense	630		630		630
Miscellaneous	26,062		26,062		26,062
Total	1,642,789	119,196	1,761,985	97,806	1,859,791
Amortization	-	6,000	6,000		6,000
Depreciation Expense	412,737	1,099 (6,385)			
		3,291	410,742		410,742
Taxes Other Than Income	55,179	10,698	65,877	5,087	70,964
Total Operating Expenses	2,110,705	133,899	2,244,604	102,893	2,347,497
Net Operating Income	(74,553)	247,712	173,159	(102,893)	70,266
Interest Income	6,038	-	6,038	-	6,038
Income Available to Service Debt	\$ (68,515)	\$ 247,712	\$ 179,197	\$ (102,893)	\$ 76,304

Billing Analysis - Adjustment for Rate Increase. North Marshall District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year

in its application.⁴⁰ North Marshall District reported total metered water sales revenue of \$1,989,807 for the test year in its Schedule of Adjusted Operations (SAO).⁴¹ North Marshall District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$2,384,588 and proposed an adjustment to increase test-year water sales revenue by \$394,781 to reflect the revenues from water rates generated by the billing analysis.⁴² North Marshall District stated this adjustment is a result of the Rate Adjustment filed pursuant to 807 KAR 5:076, designated as Case No. 2023-00134,⁴³ which increased North Marshall District's metered sales revenues significantly. North Marshall District proposed to increase its Operating Revenues by \$394,781 to normalize the test year sales to the amount generated by the billing analysis. Staff recommended the Commission accept the adjustment because the amount met the ratemaking criteria for being known and measurable.⁴⁴

The Commission finds Staff's adjustment is reasonable and should be accepted. North Marshall District's Operating Revenues should be increased by \$394,781, because the adjustment reflects verifiable usage and revenue data that were evaluated and normalized using the information provided in the record.

⁴⁰ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 5, Current Billing Analysis.

⁴¹ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

⁴² Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 5, Current Billing Analysis, Adjustment A.

⁴³ See Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*.

⁴⁴ Staff's Report at 11-12.

Miscellaneous Service Revenues – Nonrecurring Charges. In the application, North Marshall District reported \$22,639 for Miscellaneous Service Revenues.⁴⁵ North Marshall District proposed a decrease of \$14,419 to account for the new Nonrecurring Charges established in Case No. 2023-00134.⁴⁶ For the reasons set forth in Staff's Report, Staff removed normal business hour field labor and office/clerical labor costs⁴⁷ and determined that pro forma nonrecurring charges should be \$9,469.⁴⁸ To achieve the Staff's recommended pro forma amount of nonrecurring charges, Staff reduced North Marshall District's nonrecurring charges proposed adjustment of \$14,419 by \$1,249 for a total decrease of \$13,170.⁴⁹ Staff recommended the Commission accept Staff's adjustment to Miscellaneous Service Revenues because the amount meets the ratemaking criteria of being known and measurable.⁵⁰

The Commission finds that Staff's recommendation is consistent with recent Commission decisions, that labor expenses resulting from work performed during normal business hours are already recovered as regular wages; thus, should not be recovered

⁴⁵ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

⁴⁶ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

⁴⁷ 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).

⁴⁸ Staff's Report at 12.

⁴⁹ Staff's Report at 12.

⁵⁰ Staff's Report at 12–13.

through nonrecurring charges.⁵¹ The Commission requires that charges be directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a special Nonrecurring Charge for service provided during normal working hours.

The Commission finds that the revised nonrecurring charges as described in Appendix A to be reasonable, and that North Marshall District's Miscellaneous Services Revenues should be reduced by \$13,170 because only the incremental cost related to the service should be recovered for service provided by current employees during normal business hours.

Salaries and Wages – Employees. In its application, North Marshall District proposed an adjustment to increase Salaries and Wages – Employees by \$136,404,⁵² due to changes in the individual wage rates and employee turnover.⁵³ Subsequent to the test year, North Marshall District lost four employees due to resignations and retirements,⁵⁴ and hired seven new employees,⁵⁵ resulting in a net increase of three

⁵¹ Case No. 2023-00090, *Electronic Application of Henry County Water District #2 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2023); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 4, 2024); Case No. 2023-00090, *Electronic Application of Kirksville Water Association Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024).

⁵² Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

⁵³ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment C.

⁵⁴ North Marshall District's Response to Staff's First Request, Item 4, 4_NMWD_Employee_Data.xlsx, 2023 Tab.

⁵⁵ North Marshall District's Response to Staff's Second Request, Item 3, 3_NMWD_Employee_Data.xlsx, 2025 Tab, Column L.

employees. North Marshall District provided the test year employee list,⁵⁶ test-year normal⁵⁷ and overtime⁵⁸ hours worked, current wage rates,⁵⁹ and a current employee list.⁶⁰

In Staff's Report, Staff calculated Total Salaries and Wages – Employees of \$830,939,⁶¹ which is \$160,638 more than the test year Salaries and Wages – Employee of \$670,301. Staff's increase in Staff's Report was \$24,234 more than North Marshall District's proposed \$136,404 increase, as shown in the table below.

Position	Job Titles	Normalized Hours	Current Pay Rate	Total Regular Wages	Test Year Overtime Hours	Overtime Pay Rate	Total Overtime Wages	Total Pro Forma Wages
Position 1	General Manager	2,080	Salary \$	10,000	-	-	-	\$ 10,000
Position 2	Class III Operator	2,080	\$ 32.00	66,560	186.00	\$ 48.00	\$ 8,928	75,488
Position 3	Class II Operator	2,080	24.00	49,920	-	36.00	-	49,920
Position 4	Class III Operator	2,080	31.00	64,480	308.50	46.50	14,345	78,825
Position 5	Billing Clerk	2,080	25.50	53,040	-	38.25	-	53,040
Position 6	Class I Operator	2,080	23.75	49,400	-	35.63	-	49,400
Position 7	Field Manager	2,080	39.00	81,120	148.50	58.50	8,687	89,807
Position 8	Office Manager	2,080	37.00	76,960	-	55.50	-	76,960
Position 9	Customer Service	2,080	22.50	46,800	-	33.75	-	46,800
Position 10	Finance Officer	2,080	29.25	60,840	-	43.88	-	60,840
Position 11	GIS/GPS (part time)	2,080	20.00	41,600	-	30.00	-	41,600
Position 12	Class III Operator	2,080	31.00	64,480	126.00	46.50	5,859	70,339
Position 13	Operator in Training	2,080	20.00	41,600	-	30.00	-	41,600
Position 14	Operator in Training	2,080	20.00	41,600	-	30.00	-	41,600
Position 15	Operator in Training	2,080	21.50	44,720	-	32.25	-	44,720
Total		<u>31,200</u>		<u>\$ 793,120</u>	<u>769</u>		<u>\$ 37,819</u>	<u>830,939</u>
Test Year Salaries and Wages - Employees								(670,301)
Commission Staff's Adjustment								160,638
North Marshall District's Adjustment								(136,404)
Difference								<u>\$ 24,234</u>

⁵⁶ North Marshall District's Response to Staff's First Request, Item 4, 4_NMWD_Employee_Data.xlsx, 2023 Tab, Column A and B.

⁵⁷ North Marshall District's Response to Staff's First Request, Item 4, 4_NMWD_Employee_Data.xlsx, 2023 Tab, Column D.

⁵⁸ North Marshall District's Response to Staff's First Request, Item 4, 4_NMWD_Employee_Data.xlsx, 2023 Tab, Column E.

⁵⁹ North Marshall District's Response to Staff's Second Request, Item 3, 3_NMWD_Employee_Data.xlsx, 2025 Tab, Column G.

⁶⁰ North Marshall District's Response to Staff's Second Request, Item 3, 3_NMWD_Employee_Data.xlsx, 2025 Tab, Column A and B.

⁶¹ Staff's Report at 13–15.

Staff's Report recommended the Commission accept Staff's adjustment of a \$160,638 increase to Salaries and Wages – Employees, as it is a known and measurable change because it reflects the normalized and test-year hours at current wage rates with current employees.⁶²

The Commission finds that Staff's adjustment should be modified. As noted above, the Commission discovered Staff made two errors in its calculation of North Marshall District's Salaries and Wages – Employees. First, the General Manager's annual Salary is \$100,000,⁶³ but was mistakenly listed as \$10,000⁶⁴ understating Salaries and Wages – Employees by \$90,000. Second, Employee 11's normalized the annual hours worked were listed as 2,080;⁶⁵ however, since they are a part-time employee, Staff should have used the reported test-year hours worked of 905.⁶⁶ This resulted in overstating wages for Employee 11 by \$23,505, which when coupled with the \$90,000 salary understatement, resulted in a net increase to Salaries and Wages – Employees of \$66,495. The Commission determined a Pro Forma Salaries and Wages Expense of \$897,434. This results in a net increase to the Revenue Requirement of \$66,495.

⁶² Staff's Report at 13–15.

⁶³ North Marshall District's Response to Staff's Second Request, Item 3, 3_NMWD_Employee_Data.xlsx, 2025 Tab, Cell G3.

⁶⁴ Staff's Report at 15.

⁶⁵ Staff's Report at 15.

⁶⁶ North Marshall District's Response to Staff's Second Request, Item 3, 3_NMWD_Employee_Data.xlsx, 2024 Tab, Cell D19.

Position	Job Titles	Normalized Hours	Current Pay Rate	Total Regular Wages	Test Year Overtime Hours	Overtime Pay Rate	Total Overtime Wages	Total Pro Forma Wages
Position 1	General Manager	2,080	Salary	\$ 100,000	-	\$ -	\$ -	\$ 100,000
Position 2	Class III Operator	2,080	\$ 32.00	66,560	186	\$ 48.00	8,928	75,488
Position 3	Class II Operator	2,080	\$ 24.00	49,920	-	\$ 36.00	-	49,920
Position 4	Class III Operator	2,080	\$ 31.00	64,480	309	\$ 46.50	14,345	78,825
Position 5	Billing Clerk	2,080	\$ 25.50	53,040	-	\$ 38.25	-	53,040
Position 6	Class I Operator	2,080	\$ 23.75	49,400	-	\$ 35.63	-	49,400
Position 7	Field Manager	2,080	\$ 39.00	81,120	149	\$ 58.50	8,687	89,807
Position 8	Office Manager	2,080	\$ 37.00	76,960	-	\$ 55.50	-	76,960
Position 9	Customer Service	2,080	\$ 22.50	46,800	-	\$ 33.75	-	46,800
Position 10	Finance Officer	2,080	\$ 29.25	60,840	-	\$ 43.88	-	60,840
Position 11	GIS/GPS (part time)	905	\$ 20.00	18,095	-	\$ 30.00	-	18,095
Position 12	Class III Operator	2,080	\$ 31.00	64,480	126	\$ 46.50	5,859	70,339
Position 13	Operator in Training	2,080	\$ 20.00	41,600	-	\$ 30.00	-	41,600
Position 14	Operator in Training	2,080	\$ 20.00	41,600	-	\$ 30.00	-	41,600
Position 15	Operator in Training	2,080	\$ 21.50	44,720	-	\$ 32.25	-	44,720
Total		<u>31,200</u>		<u>\$ 793,120</u>	<u>769</u>		<u>\$ 37,819</u>	<u>897,434</u>
Test Year Salaries and Wages - Employees								(670,301)
Commission's Adjustment								227,133
Staff's Adjustment								(160,638)
Change to Revenue Requirement								<u>\$ 66,495</u>

Expenses Related to Meter Installations. In its application, North Marshall District proposed an adjustment to decrease Salaries and Wages – Employees by \$19,750,⁶⁷ and Materials and Supplies by \$46,084,⁶⁸ to account for tap fee expenses that were included as part of these expenses during the test year.⁶⁹ The USoA requires that costs, such as tap fee expenses, be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁷⁰ During the test year, North Marshall District installed 42

⁶⁷ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment D.

⁶⁸ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment D.

⁶⁹ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment D.

⁷⁰ USoA, Accounting Instruction 19 and 33.

new water connections,⁷¹ and reported collecting \$65,834,⁷² as shown in the following table.

Meter	Connections	Unit Cost	Revenue
5/8 X 3/4"	37	\$ 1,400	\$ 51,800
1"	3	Actual cost	5,250
1 1/2"	1	Actual cost	5,557
2"	1	Actual cost	3,227
Total	<u>42</u>		<u>\$ 65,834</u>

Therefore, Staff agreed with North Marshall District's proposed adjustments, as shown in the following table.

Description	Salaries and Wages	Materials and Supplies
Tap Fees	\$ 65,834	\$ 65,834
Allocated Percentage	30%	70%
North Marshall District's Proposed Adjustment	<u>\$ 19,750</u>	<u>\$ 46,084</u>

Staff additionally capitalized the labor and material costs related to meter installations and made a corresponding adjustment to test-year depreciation as shown in the Capitalization of Water Tap Labor adjustment.⁷³

Staff recommended the Commission accept North Marshall District's proposed adjustments to decrease Salaries and Wages – Employees by \$19,750 and decrease Materials and Supplies by \$46,084 because it reflects the proper accounting for water connection expenses according to the USoA.⁷⁴

⁷¹ North Marshall District's Response to Staff's First Request, Item 9.

⁷² North Marshall District's Response to Staff's First Request, item 2a, 2_(a)_NMWD_2023_Ledger_Analysis.xls, Account 47100003.

⁷³ Staff's Report at 15–17.

⁷⁴ Staff's Report at 15–17.

The Commission finds that North Marshall District's adjustment is reasonable and should be accepted. North Marshall District's Salaries and Wages – Employees should be reduced by \$19,750, and Materials and Supplies should be reduced by \$46,084, with a corresponding adjustment to test-year depreciation as shown in Capitalization of Water Tap Expenses adjustment because the USoA requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives.

Employee Benefits – Insurance Premiums. North Marshall District pays 100 percent of the cost of the single plan insurance coverage for each employee and 75 percent of the cost of the family plans for insurance coverage.⁷⁵ In its application, North Marshall District proposed to decrease Employee Benefits by \$4,702⁷⁶ for a reduction in employer contribution to a level consistent with the BLS's National average for an employer's share of health insurance premiums.⁷⁷

Upon review of North Marshall District's proposed adjustment, Staff agreed with North Marshall District's methodology but calculated a different amount. As discussed above, North Marshall District currently has fourteen full-time employees,⁷⁸ three of which do not participate in the insurance provided, leaving eleven participants.⁷⁹ North Marshall District provided the most recent copies of its health, vision, dental, life, and disability

⁷⁵ North Marshall District's Response to Staff's Second Request, Item 4.

⁷⁶ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

⁷⁷ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment E.

⁷⁸ North Marshall District's Response to Staff's Second Request, Item 3, 3_NMWD_Employee_Data.xlsx.

⁷⁹ North Marshall District's Response to Staff's First Request, Item 5a.

insurance invoices.⁸⁰ Staff calculated the total current premiums for insurance benefits of \$193,524, which is an increase of \$57,066 from North Marshall District's test-year amount, as shown further down in this section.

North Marshall District used a 78 percent contribution rate for employee-only coverage and 67 percent contribution rate for family coverage in its calculation.⁸¹ However, given that updated Bureau of Labor Statistics' survey numbers for 2025 were published in September 2024, Staff recognized that using an updated average of 80 percent for employee-only coverage⁸² and 68 percent for family coverage⁸³ would allow for North Marshall District's rates to reflect the most up-to-date average employer contribution amounts.⁸⁴ Accordingly, Staff adjusted North Marshall District's health insurance plan employer contribution expense for single and family plans to 80 and 68 percent, respectively.

Additionally, North Marshall District proposed reducing employer contribution to dental insurance by 40 percent.⁸⁵ Staff instead reduced North Marshall District's contribution to dental insurance by 60 percent to align with the national average of the

⁸⁰ North Marshall District's Response to Staff's First Request, Item 5a.

⁸¹ North Marshall District's Response to Staff's First Request, Item 12d, 12_d_NMWD_COSS_rate_study.xlsx, Medical Tab, Column L.

⁸² Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 3, private industry workers. (<https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2024.htm#Overview>).

⁸³ Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 4, private industry workers. (<https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2024.htm#Overview>).

⁸⁴ Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 3, private industry workers. (<https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2024.htm#Overview>).

⁸⁵ North Marshall District's Response to Staff's First Request, Item 12d, 12_d_NMWD_COSS_rate_study.xlsx, Medical Tab, Column L.

employer share of dental insurance premiums as outlined in the Willis Benchmarking Survey,⁸⁶ which is shown in the calculation below. As previously addressed, North Marshall District provided the most recent copy of its insurance invoices.⁸⁷ Utilizing the most recent invoice amounts, Staff calculated the adjustment and decreased Employee Benefits - Insurance by \$62,616, which is \$57,914 more than the \$4,702 decrease proposed by North Marshall District, as shown below.

Type of Premium	Number of Employees	Employer Contributions	Ref.	Recommended Contribution Rate	Recommended Contribution Amount	Ref.	Pro Forma Premium
Medial							
Employee Only	6	\$ 3,385		20%	\$ (677)	\$	2,708
Employee Spouse	1	924		32%	(296)		628
Employee Child	1	1,066		32%	(341)		725
Family	3	5,984		32%	(1,915)		4,069
Total Medical Insurance		11,359			(3,229)		8,130
Dental Insurance	11	3,315		60%	(1,989)		1,326
Administration Fee	11	66		-	-		66
Life STD/LTD Insurance	12	1,311		-	-		1,311
Vision Insurance	3	76		-	-		76
Total Monthly Pro Forma Premium		16,127			(5,218)		10,909
Multipled by: 12 Months		12			12		12
Total Annual Insurance Premium		193,524			(62,616)		130,908
Test Year Health Insurance Premium ()		(136,458)					(136,458)
Commission Staff's Net Adjustment		57,066	(E1)		(62,616)	(E2)	(5,550)
Less: North Marshall District's Adjustment ()		-			4,702		4,702
Difference		\$ 57,066			\$ (57,914)		\$ (848)

Staff recommended the Commission accept Staff's adjustment, a net decrease of \$848 to the test-year amount as North Marshall District provided insufficient evidence that employer contributions in excess of the BLS average contribution amounts were appropriate or necessary to attract and retain employees as part of an overall benefit package.⁸⁸

⁸⁶ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and The Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

⁸⁷ North Marshall District's Response to Staff's First Request, Item 5a.

⁸⁸ Staff's Report at 15 – 17.

The Commission finds Staff's adjustment needs to be modified. Based on follow-up responses from the Commission, North Marshall District indicated that it would not have proposed the same adjustment to employee insurance premiums based on BLS data.⁸⁹ As stated above, North Marshall District's Board approved policy provides its employees 100 percent of the cost of the single plan for each employee and 75 percent of the cost of the family plans.⁹⁰ Additionally, North Marshall District confirmed the optional life and vision insurance is 100 percent paid by the employee through payroll deductions; therefore, the Commission did not include the recovery of life or vision premiums.⁹¹ The Commission recalculated the expense using the contribution levels North Marshall District requires of its employees. This results in an increase to the Revenue Requirement of \$22,032, as shown in the following table.

⁸⁹ North Marshall District's Response to Staff's Third Request, Item 1a.

⁹⁰ North Marshall District's Response to Staff's Third Request, Item 1a.

⁹¹ North Marshall District's Response to Staff's Third Request, Item 1a.

Type of Premium	Number of Employees	Employer Contributions	Employee Contribution Rate	Recommended Employee Contribution Amount	Pro Forma Premium
Medial					
Employee Only	6	\$ 3,385	\$ -	\$ -	\$ 3,385
Employee Spouse	1	924	25%	(231)	693
Employee Child	1	1,066	25%	(267)	799
Family	2	3,830	25%	(958)	2,872
Family	1	2,154	25%	(539)	1,615
Total Medical Insurance		11,359		(1,995)	9,364
Dental Insurance	11	3,315	0%	-	3,315
Administration Fee	11	66	0%	-	66
Life STD/LTD Insurance	12	1,311	100%	(1,311)	-
Vision Insurance	3	76	100%	(76)	-
Total Monthly Pro Forma Premium		16,127		(3,382)	12,745
Multiplied by: 12 Months		12		12	12
Total Annual Insurance Premium		193,524		(40,584)	152,940
Test Year Health Insurance Premium ()		(136,458)		-	(136,458)
Commission Staff's Net Adjustment		57,066		(40,584)	16,482
Less: Staff's Calculated Adjustment ()		(57,066)		62,616	5,550
Revenue Requirement Increase		\$ -		\$ 22,032	\$ 22,032

Employee Pensions (CERS). North Marshall District participates in the County Employee Retirement System (CERS),⁹² which is managed by the Kentucky Public Pension Authority (KPPA). North Marshall District proposed a decrease to Employee Pensions and Benefits in the amount of \$24,259⁹³ to reflect the reduced pension contribution rate that took effect on July 1, 2024, of 19.71 percent.⁹⁴ Staff calculated three adjustments based on the calculation of the pro forma Salaries and Wages – Employees as well as contribution percentage, and GASB 68 and 75 accounting.

⁹² North Marshall District's Response to Staff's First Request, Item 4.

⁹³ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

⁹⁴ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment F.

While Staff agreed with North Marshall District's methodology, it calculated different adjustments.⁹⁵ First, Staff calculated an increase of \$90,433 for Pension and Other Post Employment Benefits (OPEB) related to GASB 68 and GASB 75 from North Marshall District's test year amount. In Case No. 2016-00163,⁹⁶ Staff discussed how reporting requirements for GASB 68 would affect a utility's income statement and balance sheet.⁹⁷ In that proceeding, the Commission found that the annual pension expense should be equal to the amount of a district's contributions to CERS.⁹⁸ Consistent with Commission precedent,⁹⁹ Staff added \$90,433 as an adjustment related to GASB 68 as well as GASB 75, which did not become effective until after GASB 68.

Second, Staff calculated an additional decrease of \$15,255 to North Marshall District's proposed decrease of \$24,259 to account for the reduction in the CERS contribution rate from the test year.¹⁰⁰ Finally, the increase in contributable wages resulted in an increase of \$19,941 for North Marshall District's CERS expense.¹⁰¹ The adjustments result in a net increase of \$70,860, which is \$95,119 greater than North Marshall District's proposed \$24,259 decrease, as shown in the table below.

⁹⁵ Staff's Report at 19–21.

⁹⁶ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 12–16.

⁹⁷ Staff's Report at 19–21.

⁹⁸ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 12–16.

⁹⁹ Case No. 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 13, 2022), Order at 11–12.

¹⁰⁰ CERS Board of Trustees December 4, 2023, Meeting, Minutes, Page 2. CERS Contribution Rate in the test year was 26.79% and 19.71% in current year.

¹⁰¹ Staff's Report at 19–21.

Description	Test Year	Pro Forma
Wages	\$ 670,301	\$ 830,939
Average Contribution Rate	25.07%	19.17%
Contributions	168,011	159,291
Test Year Employee Pensions		(88,431)
Total Increase		70,860
North Marshall District's proposed adjustment		24,259
Difference		<u>\$ 95,119</u>

Reconciliation	North Marshall District	Adjustment
Eliminate GASB 68 and 75 Adjustments	-	\$ 90,433
Change in Contribution Rate	\$ (24,259)	(15,255)
Change in Wages	0	19,941
Total Increase	<u>\$ (24,259)</u>	<u>\$ 95,119</u>

Staff recommended the Commission accept Staff's proposed adjustments as the amounts are known and measurable based on current Salaries and Wages at current contribution levels.¹⁰²

The Commission finds Staff's adjustments should be modified. As discussed in the Salaries and Wages – Employee Adjustment, the Salaries and Wages needed to be increased by a net of \$66,495 which will also increase the pension expense. Additionally, since Employee 11 is part time, they should not be included in the CERS calculation resulting in full-time Employee wages of \$879,339; an increase of \$209,038 from the test year's \$670,301 as shown in the following table. Therefore, the Commission determined that North Marshall District's Employee Pensions should be increased by a net of \$80,139 because the modified contribution expense accounts for the normalization of full-time

¹⁰² Staff's Report at 19-21.

employees, the corresponding update to the required contribution percent by CERS, and this conforms with general accounting principles. This results in an increase to the Revenue Requirement of \$9,279 as shown in the following table.

Description	Test Year	Commission Pro Forma
Full Time Employee Wages	\$ 670,301	\$ 879,339
Average Contribution Rate	25.07%	19.17%
Contributions	168,011	168,570
Excess (Cost) / Income Over Contributions	(90,433)	-
Unidentified Amounts	10,853	-
Total	\$ 88,431	168,570
Test Year Employee Pensions ()		(88,431)
Total Increase		80,139
North Marshall District's Proposed Adjustment ()		24,259
Commission Adjustment		104,398
Staff's adjustment		(95,119)
Change to Revenue Requirement		\$ 9,279

<i>Reconciliation</i>	North Marshall District	Commission Adjustment
Eliminate GASB 68 and 75 Adjustments	-	\$ 90,433
Change in Contribution Rate	\$ (24,259)	(15,255)
Change in Wages	-	29,220
Total Increase	\$ (24,259)	\$ 104,398

Excess Water Loss. In the application, North Marshall District proposed adjustments to decrease Purchased Power Expense by \$6,455¹⁰³ and Chemicals Expense by \$1,205.¹⁰⁴ The adjustments are to reflect the expense for water loss in

¹⁰³ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

¹⁰⁴ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment G.

excess of 15 percent. During the test year North Marshall District reported a water loss of 18.8691 percent.¹⁰⁵ As noted earlier in the report, Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included for ratemaking purposes. Therefore, Staff calculated a decrease to Purchased Power Expense of \$6,455 and Chemicals Expense of \$1,205, as shown in the following table.

Disallowed Water Loss	Purchased			Total
	Power	Chemicals		
Pro Forma Purchases	\$ 166,835	\$ 31,147	\$ 197,982	
Water Loss in Excess of 15%	3.8691%	3.8691%	3.8691%	
Disallowed Water Loss	<u>\$ (6,455)</u>	<u>\$ (1,205)</u>	<u>\$ (7,660)</u>	

The Staff recommended the Commission accept North Marshall District's \$6,455 decrease to Purchase Power Expense and a \$1,205 decrease to Chemical Expense, because of Commission regulation 807 KAR 5:066, Section 6(3), limiting water loss to 15 percent for ratemaking purposes.¹⁰⁶

The Commission finds North Marshall's adjustments are reasonable and should be accepted. North Marshall District's Purchased Power Expense should be decreased by \$6,455 and its Chemical Expense should be decreased by \$1,205 because of Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes.

¹⁰⁵ 2023 Annual Report at 58.

¹⁰⁶ Staff's Report at 21-22.

Amortization Expense. In its application, North Marshall District proposed an adjustment to increase Amortization Expense by \$7,768¹⁰⁷ to reflect the amortization of current rate case expense and \$2,651 for unamortized rate case expense for the previous rate case.¹⁰⁸

North Marshall District contracted with KRWA to assist with the application.¹⁰⁹ KRWA provided a quote for \$15,350 to prepare the rate case.¹¹⁰ Staff reviewed the rate study proposal and agreed with the recovery of \$15,350 over three years, as shown below.¹¹¹

However, Staff disagreed with methodology proposed by North Marshall District for the recovery of Case No. 2023-00134's unamortized rate case expense.¹¹² In that case, North Marshall District was authorized to recover \$2,651 annually for three years.¹¹³ Commission precedent is to allow the recovery of remaining rate case expense to run concurrently with the current rate case expense.¹¹⁴ Otherwise, North Marshall District would recover six-year worth of rate case expense instead of three on the previous rate

¹⁰⁷ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

¹⁰⁸ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment I.

¹⁰⁹ North Marshall District's Response to Staff's First Request, Item 3, 3_(b)_Rate_Study.pdf.

¹¹⁰ North Marshall District's Response to Staff's First Request, Item 3, 3_(b)_Rate_Study.pdf.

¹¹¹ Staff's Report at 22–23.

¹¹² Staff's Report at 22–23.

¹¹³ Case No. 2023-00134, Dec. 22, 2023 Order at 33–34.

¹¹⁴ Case No. 2022-00372, *Electronic Application of Duke Energy Kentucky, Inc. for (1) An Adjustment of Electric Rates; (2) Approval of New Tariffs; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and (4) All Other Required Approvals and Relief* (Ky. PSC July 1, 2024), Order at 18.

case. Staff calculated an annual rate case expense of \$6,000, which is \$1,768 less than proposed by North Marshall District.

Description	Amount
Current Rate Case Expense	\$ 15,350
Unamortized Rate Case Expense from 2023-00134	2,651
Total Rate Case Expense	18,001
Amortization Years	3
Total Rate Case Amortization Expense	6,000
Proposed Amortization Adjustment	(7,768)
Difference between Commission Staff's and North Marshall District's Adjustments	<u>\$ (1,768)</u>

Staff recommended the Commission accept Staff's \$6,000 Amortization Expense to reflect the recovery of the current Rate Case Expense as well as the remainder of the previous unamortized rate case expense within a three-year period.¹¹⁵

The Commission finds that Staff's adjustment is reasonable and should be accepted. North Marshall District's Amortization Expense should be increased from test year expenses of \$2,651 to \$6,000, in order to amortize the current rate case expense and the unamortized portion of the past rate case's rate case expense. The Commission also accepts the recommendation of a three-year amortization for the rate case expense. The amortization period will allow for the utility to recover a reasonable, known expense over time and lessen the immediate impact to the rate payer.

Materials and Supplies Expense. North Marshall District reported test-year Materials and Supplies Expense of \$236,278.¹¹⁶ During Staff's review of North Marshall

¹¹⁵ Staff's Report at 22-23.

¹¹⁶ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

District's general ledger accounts for Materials and Supplies, it also identified several expenditures that should have been capitalized. North Marshall District agreed some of the items purchased should have been capitalized.¹¹⁷ Accounting Instruction 27 B(1) of the USoA for Class A/B Water Systems states that the cost of retirement units added to utility plant shall be accounted for as provided in Accounting Instruction 21 of the USoA, which provides methodology for capitalization of purchased assets including nonrecurring maintenance expenses that extend the useful life of an asset.¹¹⁸ Staff made an adjustment to decrease Materials and Supplies by \$33,258.

Further, Staff made an adjustment to depreciate the cost of each asset over its estimated useful life as part of Depreciation Expense calculation.¹¹⁹ Staff aligned the asset's useful lives with the Depreciation Practices for Small Utilities (NARUC Study), which is included as an adjustment below. This results in an increase of \$1,099 to Depreciation Expense.

Date	Name	Capitalized Amount	Service Life	Annual Depreciation Expense	
05/18/23	(AP) G & C Waterworks	\$ 2,620	62.50	\$ 42	
08/09/23	(AP) CORE & MAIN	15,119	20.00		756
03/13/23	(AP) G & C Waterworks	3,630	50.00		73
03/13/23	(AP) G & C Waterworks	2,388	62.50		38
08/15/23	(AP) CORE & MAIN	9,501	50.00		190
Total		<u>\$ 33,258</u>			<u>\$ 1,099</u>

¹¹⁷ North Marshall District's Response to Staff's Second Request, Item 2b, 2_(b)_NMWD.xlsx, Column H.

¹¹⁸ USoA, Accounting Instruction 27 B(1) at 33.

¹¹⁹ Staff's Report at 24–25.

Staff recommended that the Commission accept Staff's adjustment to decrease Materials and Supplies by \$33,258, as well as an increase to Depreciation Expense of \$1,099, as the expenditures included were used to extend the life of an existing asset and should be capitalized according to the USoA instructions for utility plant accounting.¹²⁰

The Commission finds Staff's adjustments reasonable; Materials and Supplies Expense should be decreased by \$33,258 and Depreciation Expense increase by \$1,099 in order to properly capitalize known and measurable costs incurred for capital assets over their useful lives pursuant to the USoA.

Depreciation Expense. In its application, North Marshall District proposed an adjustment to reduce Depreciation Expense by \$28¹²¹ to reflect the NARUC Study, as well as the inclusion of assets that were mistakenly not included in the test year's Depreciation Expense.¹²² To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same National Association of Regulatory Utility Commissioners (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.¹²³ Upon examination, Staff agreed with North Marshall District's methodology to adjust

¹²⁰ Staff's Report at 24–25.

¹²¹ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

¹²² Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment H.

¹²³ 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.

depreciation expense.¹²⁴ Staff's calculation differed from North Marshall District in two areas. North Marshall District proposed to depreciate water treatment equipment over a 17.5-year service life,¹²⁵ however, the NARUC Study recommended depreciating Water Treatment Equipment over a range of 20 to 35 years,¹²⁶ for a 27.5-year midpoint. Second, Staff disagreed with North Marshall District depreciating Tools over a five-year service life,¹²⁷ the NARUC Study recommended a range of 15 to 20 years for a midpoint of 17.5 years.¹²⁸

Staff agreed with the inclusion of two assets mistakenly not included in the test year Depreciation Expense.¹²⁹ Staff calculated a Depreciation Expense of \$406,352, as shown in the following table, which is \$6,385 less than the reported test-year amount of \$412,737 and \$6,357 less than North Marshall District's proposed \$28 decrease to Depreciation Expense.

¹²⁴ Staff's Report at 22–25.

¹²⁵ Application, Attachment 7, Attachment_7_2023_NMWD_Fixed_Assets_Schedule.xls, Adjusted Tab, rows 49–53.

¹²⁶ National Association of Regulatory Commissioners Depreciation Practices for Small Water Utilities, NARUC Account Number 332 Water Treatment Equipment.

¹²⁷ Application, Attachment 7, Attachment_7_2023_NMWD_Fixed_Assets_Schedule.xls, Adjusted Tab, rows 519–560.

¹²⁸ National Association of Regulatory Commissioners Depreciation Practices for Small Water Utilities, NARUC Account Number 394 Tools, Shop & Garage Equipment.

¹²⁹ Application, Attachment_7_-2023_NMWD_Fixed_Assets_Schedule.xls, Adjusted Tab, Account 33100007 and 33100067.

Asset Class	NARUC Recommended Service Lives	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Structures and Improvements	35 - 40	\$ 69,694	\$ (2,193)	\$ 67,501
Wells and Springs	25 - 35	7,503	-	7,503
Supply Mains	50 - 75	12,964	145	13,109
Pumping Equipment	20	7,907	(20)	7,887
Water Treatment Equipment	20 - 35	396	-	396
Reservoirs & Tanks	35 - 40	21,639	-	21,639
Transmission & Distribution Mains	50 - 75	114,228	63	114,291
Services	30 - 50	37	-	37
Radio Read Meters	20	85,218	-	85,218
Radio Read Meter Installation	20	38,365	-	38,365
Hydrants	40 - 60	125	-	125
Office Furniture and Equipment	20 - 25	367	(204)	163
Transportation Equipment	7	34,749	-	34,749
Tools, Shop, & Equipment	15 - 20	5,849	(3,622)	2,227
Power Operated Equipment	10 - 15	451	(31)	420
Communication Equipment	10	13,245	(523)	12,722
Total Depreciation Expense		<u>\$ 412,737</u>	<u>(6,385)</u>	<u>\$ 406,352</u>
North Marshall District's Proposed Adjustment ()			28	
Difference			<u>\$ (6,357)</u>	

Staff recommended the Commission accept Staff's \$6,385 decrease to Depreciation Expense to reflect the annualization of Depreciation expense at the recommended NARUC midpoint service lives for capital assets with a remaining book value, in addition to the inclusion of the two assets mistakenly not included in the test-year calculation.¹³⁰

The Commission finds that Staff's recommended adjustments are reasonable and should be accepted. North Marshall District's Depreciation Expense should be decreased by \$6,385 because the known and measurable change is a direct result of aligning North Marshall District's capital asset's useful lives with the NARUC Study's recommended useful lives, as well as the addition of two assets mistakenly not included.

¹³⁰ Staff's Report at 22-25.

Capitalization of Water Tap Expenses. As discussed in the Expenses Related to Meter Installations adjustment above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.¹³¹ Therefore, Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$3,291 to account for the Tap Fee labor and materials as shown below:¹³²

Description	Salaries and Wages	Materials and Supplies
Test Year Water Connections Expense	\$ 19,750	\$ 46,084
Divided by: Recommended Useful Life	20	20
Capitalized Expenses	<u>\$ 987</u>	<u>2,304</u>
Total Depreciation Adjustment		<u>\$ 3,291</u>

Staff recommended the Commission accept Staff's \$3,291 increase to Depreciation Expense, because the USoA requires the assets to be depreciated over their estimated useful lives.¹³³

The Commission finds that Staff's recommended adjustment is reasonable and should be accepted. North Marshall District's Depreciation Expense should be increased by \$3,291 because the known and measurable amount reflects USoA requirement for assets to be depreciated over their estimated useful lives.

Taxes Other Than Income – Federal Insurance Contribution Act (FICA). In its application, North Marshall District proposed an adjustment to increase Taxes Other Than

¹³¹ USoA, Accounting Instruction 19 and 33.

¹³² Staff's Report at 25–26.

¹³³ Staff's Report at 25–26.

Income by \$8,844,¹³⁴ to reflect changes in salaries and wages.¹³⁵ As explained above, Staff calculated North Marshall District's total Salaries and Wages – Employees of \$830,939.¹³⁶ Therefore, Staff calculated an increase of \$10,698 to Taxes Other Than Income, which is \$1,854 more than the \$8,844 proposed increase by North Marshall District, as shown in the following table.

Description	Amount
Salaries and Wages - Employees	\$ 830,939
Salaries and Wages - Officers	30,200
<hr/>	
Total Salaries and Wages	861,139
Times: 7.65 Percent FICA Rate	7.65%
<hr/>	
Pro Forma Payroll Taxes	65,877
Test Year Payroll Taxes ()	(55,179)
<hr/>	
Commission Staff's Adjustment	10,698
North Marshall District's Adjustment ()	(8,844)
<hr/>	
Difference	\$ 1,854

Staff recommended the Commission approve Staff's adjustment to increase Taxes Other Than Income by \$10,698, because it is a known and measurable change that is a direct result of changes to Salaries and Wages – Employees.¹³⁷

The Commission finds that Staff's adjustment should be modified. As previously addressed the Salaries and Wages – Employees expense was increased by a net of \$66,495; therefore, North Marshall District's pro forma Taxes Other Than Income requires a corresponding increase of \$5,087. As shown in the following table, the Commission

¹³⁴ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment J.

¹³⁵ Application, Attachment_1_-_6_NMWD_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment J.

¹³⁶ Staff's Report at 26–27.

¹³⁷ Staff's Report at 26–27.

calculated a pro forma Taxes other than Income of \$15,785. The adjustment is an increase of \$5,087. This results in an increase to Revenue Requirement of \$5,087 as shown in the following table.

Description	Amount
Salaries and Wages - Employees	\$ 897,434
Salaries and Wages - Officers	30,200
<hr/>	
Total Salaries and Wages	927,634
Times: 7.65 Percent FICA Rate	7.65%
<hr/>	
Pro Forma Payroll Taxes	70,964
Test Year Payroll Taxes ()	(55,179)
<hr/>	
Commission's Adjustment	15,785
Staff's Adjustment ()	(10,698)
<hr/>	
Change to Revenue Requirement	<u>\$ 5,087</u>

SUMMARY OF ADJUSTMENTS

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

Description	Staff's Pro Forma	Commission Adjustment	Commission Approved Pro
Total Operating Revenues	\$ 2,417,763	\$ -	\$ 2,314,870
Total Operating Expenses ()	(2,244,604)	(102,893)	(2,347,497)
<hr/>			
Net Operating Income	173,159	(102,893)	(32,627)
Interest Income	6,038	-	6,038
<hr/>			
Income Available to Service Debt	<u>\$ 179,197</u>	<u>\$ (102,893)</u>	<u>\$ (26,589)</u>

OVERALL REVENUE REQUIREMENT

North Marshall District proposed to use the Operating Ratio (OR) method to calculate its Revenue Requirement.¹³⁸ The Commission has historically used an OR

¹³⁸ Application, Attachment_1_-6_NMWD_List_of_attachments.pdf, Attachment 4, Revenue Requirements Using Operating Ratio Method Table.

Method to calculate the revenue requirement for water districts or associations with little to no outstanding long-term debt.¹³⁹ Staff's Report indicated that, if the Commission used the Debt Service Coverage (DSC) method, North Marshall District would only recover \$283,576 for the Debt Service and Additional Working Capital, as shown in the following table.¹⁴⁰

Description	Amount
Average Annual Principal and Interest Payments	\$ 236,313
Additional Working Capital at 20%	47,263
Total Additional Working Capital	<u>\$ 283,576</u>

In contrast, the OR methodology provides \$306,082 in additional working capital.¹⁴¹ Due to North Marshall District's lower debt service requirement, the rate increase from the debt service coverage method would not provide it with sufficient working capital to operate effectively to provide adequate, efficient, and reasonable service.¹⁴² Therefore, the Commission finds that the OR method was more suitable than the DSC method to provide North Marshall District sufficient working capital to maintain financial stability.

By applying the OR method, Staff calculated North Marshall District's Revenue Requirement from the Sale of Water to be \$2,620,621,¹⁴³ and a revenue increase of

¹³⁹ Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Dec. 22, 2023).

¹⁴⁰ Staff's Report at 30.

¹⁴¹ Pro Forma Operating Expenses \$2,244,604 / 88 Operating Ratio Percent = \$2,550,686 Sub-Total. Sub-Total \$2,550,686 – Pro Forma Operating Expenses \$2,244,604 = \$306,082 Additional Working Capital.

¹⁴² Staff's Report at 30.

¹⁴³ Staff's Report at 29 – 31.

\$236,033, or 9.90 percent, was necessary to generate the Overall Revenue Requirement of \$2,659,834.¹⁴⁴

After reviewing the evidence provided, the Commission finds that the application of the OR method is appropriate, but Staff's calculation should be adjusted. This adjustment is because, as discussed above, the Commission made several additional adjustments to the revenue requirement: First for the correction of the premiums paid for health insurance due to the reversal of the BLS adjustment; second, the correction to Salaries and Wages – Employes; and finally, the corresponding increases to Employee Pensions and Taxes other than Income. The adjustments resulted in a net increase to Operating Expenses of \$102,893, and an increase to the Overall Revenue Requirement of \$116,924.

The Commission finds a Revenue Requirement from Water Sales of \$2,737,545. A revenue increase of \$352,957, or 14.80 percent, is necessary to generate the Overall Revenue Requirement of \$2,776,758 as shown in the following table.

¹⁴⁴ Staff's Report at 29–31.

Description	Staff's Report	Revised Calculation
Pro Forma Operating Expenses	\$2,244,604	\$ 2,347,497
Divided by: Operating Ratio	88%	88%
Subtotal	2,550,686	2,667,610
Annual Interest Expense	109,148	109,148
Overall Revenue Requirement	2,659,834	2,776,758
Other Operating Revenue ()	(33,175)	(33,175)
Interest Income ()	(6,038)	(6,038)
Revenue Required From the Sale of Water	2,620,621	2,737,545
Revenue From Sales With Present Rates ()	(2,384,588)	(2,384,588)
Required Revenue Increase	\$ 236,033	\$ 352,957
Percentage Increase / (Decrease)	9.90%	14.80%

Average Annual Interest and Fees Payments. North Marshall District currently has two outstanding debts with the United States Department of Agriculture's (USDA) Rural Development (RD) via Bonds.¹⁴⁵ North Marshall District provided the amortization schedules for its outstanding debt.¹⁴⁶ Using the amortization tables, Staff calculated the average annual interest on a five-year average for the years 2025 through 2029. Staff calculated an average Interest Expense of \$109,148 as shown in the following table.

Loan	2025	2026	2027	2028	2029	Total
	Interest	Interest	Interest	Interest	Interest	
USDA Series 2014 Bond	\$ 75,792	\$ 74,172	\$ 72,506	\$ 70,796	\$ 69,042	\$ 362,308
USDA Series 2021 Bonds	38,239	37,474	36,698	35,911	35,111	183,433
Totals	\$ 116,056	\$ 113,672	\$ 111,231	\$ 108,735	\$ 106,182	545,741
5 Year Average						<u>\$ 109,148</u>

¹⁴⁵ Case No. 2015-00195, *Application of The North Marshall Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023*. Case No. 2021-00333, *Electronic Application of North Marshall Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023*.

¹⁴⁶ Application, 8_RD_Loan_Amort_Schs.pdf.

Staff recommended the Commission accept Staff's proposed inclusion of \$109,148 to the Revenue Requirement to account for the average annual interest payments.¹⁴⁷

The Commission finds Staff's calculated Average Interest and Fees Payments of \$109,148 should be included in North Marshall District's Revenue Requirement because the OR methodology allows for the recovery of the interest and fees payments.

RATE DESIGN

In its application, North Marshall District proposed to increase all its monthly retail water service rates evenly across the board by approximately 10.00 percent.¹⁴⁸ North Marshall District stated that it contracted with KRWA to develop rates based on a COSS for this case. However, after a review, North Marshall District Board of Commissioners determined that the rates developed from the COSS would impose an overly burdensome impact on North Marshall District's customers and decided to submit the application with a request for an across-the-board increase.¹⁴⁹ North Marshall District provided a copy of its most recent COSS performed for its system.¹⁵⁰ In past case, when a utility performs a COSS, the Commission has required using the COSS as it reflects the actual allocation of costs resulting from the expenses to serve each customer class. North Marshall District stated that the COSS would have an overly burdensome impact on the residential

¹⁴⁷ Staff's Report at 31–32.

¹⁴⁸ Application, Attachment #2, Reasons for Application.

¹⁴⁹ North Marshall District's Response to Staff's First Request, Item 12a at 10.

¹⁵⁰ North Marshall District's Response to Staff's First Request, Item 12d, 12_d_NMWD COSS rate study.xlsx.

customers.¹⁵¹ The Commission finds that the difference between the average bill calculation with the COSS rates and across-the-board rates does not demonstrate a significant shift of responsibility toward residential customers.

The development of a COSS to establish utility rates is the most fair, just and reasonable method to ensure each customer category is charged for services based on the cost to serve that particular customer category. Some deviation may be appropriate if the cost to serve varies across customer classes or for other specific community or customer needs. North Marshall District has the burden of demonstrating that a rate design significantly different from the COSS is appropriate. Staff recognized that there is a larger increase on the average customer when employing the KRWA's COSS to establish the rates compared to an across-the-board increase; however, utilizing the COSS to calculate the rates is the appropriate manner to establish fair, just and reasonable rates at sufficient revenues and here, the Commission did not find the increase on any particular class to be unreasonable.¹⁵² Moreover, North Marshall District did not provide convincing justification for proposing a rate design that deviated from the COSS. Staff allocated the \$236,033 revenue increase employing the same method as the COSS provided by North Marshall District. However, as discussed above, removing the BLS study adjustment, as well as correcting Staff's error in the Salaries and Wages – Employees along with the subsequent pension and payroll tax adjustments increased the revenue requirement. As a result, following the same approach, the Commission allocated the revised \$352,957 increase employing the same method as the COSS

¹⁵¹ North Marshall District's Response to Staff's Report, Item 2.

¹⁵² Staff's Report at 6.

provided by North Marshall District, resulting in a higher increase in minimum bill for 5/8-X 3/4-, 1-, 1 1/2-, and 2-Inch Meter users and a decrease in minimum bill for 3-, 4- and 6-Inch Meter users.

The rates, as calculated by the Commission, which are set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenue from water sales to recover the updated revenue required from rates of \$2,737,545, an approximate 14.80 percent increase. North Marshall District has a bi-monthly billing cycle as shown in their Tariff, which includes a minimum charge and a per-gallon usage-based charge.¹⁵³ The bi-monthly water bill for a typical residential customer using approximately 8,000 gallons bi-monthly¹⁵⁴ will increase by \$9.73 from \$58.14 to \$67.87, or approximately 16.74 percent. Refer to the following table for more information on how the allocation of the cost of service affects each of the customer classes, individually.

¹⁵³ North Marshall District's Response to Staff's First Request, Item 11a at 10. Application, Attachment 1, Customer Notice. North Marshall District's Tariff at 5.

¹⁵⁴ Application, Attachment 1, Customer Notice (The average retail customer uses 8,000 gallons bi-monthly).

Meter Size	Average Gallons Bi-Monthly	Existing Bill	Proposed Bill	Amount Change	Percentage Increase
Final Order Average Water Bills					
5/8 x 3/4"	8,000	\$ 58.14	\$ 67.87	\$ 9.73	16.74%
1"	30,000	153.28	167.13	13.85	9.04%
1 1/2"	50,000	248.04	264.93	16.89	6.81%
2"	75,000	365.62	399.63	34.01	9.30%
3"	100,000	512.24	534.33	22.09	4.31%
4"	200,000	967.94	1,006.73	38.79	4.01%
6"	500,000	2,298.65	2,390.73	92.08	4.01%

The Commission finds that the evidence provided in the record and the corresponding analysis shows that the updated revenue requirement and the allocation methodology used by Staff are fair, just and reasonable and should be accepted. Accordingly, the Commission concludes that the rates recommended by Staff, as modified, are fair, just and reasonable and should be approved.

Nonrecurring Charges. Staff reviewed North Marshall District's Nonrecurring Charges. Previously, the Commission found that because district personnel are currently paid during normal business hours, the estimated normal business-hour labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges.¹⁵⁵ North Marshall District provided updated cost justification

¹⁵⁵ 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).

information for the Nonrecurring Charges¹⁵⁶ as well as a list of the number of occurrences for each of its Nonrecurring Charges.¹⁵⁷ Staff reviewed the cost-justification information provided by North Marshall District and adjusted the charges by removing the Field Labor Costs and the Office/Clerical Labor Costs for charges occurring during normal business hours¹⁵⁸. Staff also removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal business hours.¹⁵⁹ Connection/Turn-on Charge (Transfer/Reading Fees), Field Collection Charge, and Meter Reread all increased \$0.75, from \$5.25 to \$6.00, Meter Re-Installation Charge (Meter Install Fee) increased \$1.50, from \$10.50 to \$12.00, Meter Test Charge increased \$1.00, from \$13.00 to \$14.00, and Reconnection Charge (Turn Off Fee) increased \$2.00, from \$21.00 to \$23.00.¹⁶⁰ Staff recommended increasing the following charges: Connection/Turn-on Charge (After Hours) by \$1.50, from \$92.50 to \$94.00, and Reconnection Charge (After Hours) by \$1.00, from \$98.00 to \$99.00, both due to rising labor and transportation costs.¹⁶¹ Staff recommended the Returned Check Charge be increased by \$0.40, from \$15.60 to \$16.00, due to the increasing cost of some miscellaneous expenses.¹⁶²

¹⁵⁶ North Marshall District's Response to Staff's First Request, Item 17, 17_NMWD_Nonrecurring_Cost_Justification.pdf.

¹⁵⁷ North Marshall District's Response to Staff's Second Request, Item 6, 6_(a)_2023_NMWD_Non_Recurring_Charges.xlsx.

¹⁵⁸ Staff's Report at 7–10.

¹⁵⁹ Staff's Report at 7–10.

¹⁶⁰ Staff's Report at 8.

¹⁶¹ Staff's Report at 8.

¹⁶² Staff's Report at 8.

The cost justification information, shown in Appendix A, was provided by North Marshall District and supports Staff's adjustments to the Nonrecurring Charges. The adjustments discussed above result in the following revised Nonrecurring Charges:

Nonrecurring Charges	Current Charge	Revised Charge
Connection/Turn-on Charge (Transfer/Reading Fees)	\$ 5.25	\$ 6.00
Connection/Turn-on Charge (After Hours)	\$ 92.50	\$ 94.00
Field Collection Charge	\$ 5.25	\$ 6.00
Meter Box or Lid Replacement Charge	Actual Cost	Actual Cost
Meter Re-Installation Charge (Meter Install Fee)	\$ 10.50	\$ 12.00
Meter Relocation Charge	Actual Cost	Actual Cost
Meter Reread	\$ 5.25	\$ 6.00
Meter Test Charge	\$ 13.00	\$ 14.00
Reconnection Charge (Turn Off Fee)	\$ 21.00	\$ 23.00
Reconnection Charge (After Hours)	\$ 98.00	\$ 99.00
Returned Check Charge	\$ 15.60	\$ 16.00

The adjustments to the Nonrecurring Charges result in a decrease in Miscellaneous Services Revenues of \$13,170 as shown below.

Charge	Occurrences	Current Charge	Revised Charge	Pro Forma
Connection/Turn-on Charge (Transfer/Reading Fees)	414	\$ 5.25	\$ 6.00	\$ 2,484
Connection/Turn-on Charge (After Hours)	0	\$92.50	\$94.00	-
Field Collection Charge	0	\$ 5.25	\$ 6.00	-
Meter Box or Lid Replacement Charge	3	Actual Cost	Actual Cost	119
Meter Re-Installation Charge (Meter Install Fee)	8	\$10.50	\$12.00	96
Meter Relocation Charge	0	Actual Cost	Actual Cost	-
Meter Reread	0	\$ 5.25	\$ 6.00	-
Meter Test Charge	2	\$13.00	\$14.00	28
Reconnection Charge (Turn Off Fee)	256	\$21.00	\$23.00	5,888
Reconnection Charge (After Hours)	2	\$98.00	\$99.00	198
Returned Check Charge	41	\$15.60	\$16.00	656
Pro Forma Test Year NRC Revenue				9,469
Test Year NRC Revenue ()				(22,639)
Adjustment				(13,170)
North Marshall District's Adjustment ()				14,419
Difference				\$ 1,249

The Commission finds that Staff's adjustments to North Marshall District's Nonrecurring Charges are appropriate, given that the cost justification supports the increase and the amount meets the ratemaking criteria of being known and measurable.

The Commission finds that the Staff's Report recommendations are consistent with excluding additional labor expenses resulting from work performed during regular business hours, as they are already being recovered and should not also be recovered through Nonrecurring Charges. The Commission finds that Staff's recommendations are reasonable, and the revised Nonrecurring Charges described above and in Appendix B to be reasonable.

Tap-On Fees. North Marshall District provided an updated cost justification for its 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge.¹⁶³ Staff reviewed the cost-justification information provided by North Marshall District and noted that it supports an increase in the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge. Staff recommended that the Commission accept North Marshall District's supported increase for its 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge from \$1,400 to \$1,526, as this value represents the actual costs associated with performing this service.¹⁶⁴

The Commission agrees with the Staff's recommendation to increase the 5/8-inch x 3/4-inch Meter Connection/Tap-On Charge to \$1,526, to reflect the current expenses incurred to install new taps, in order to prevent an under-recovery for the tap fee. Increasing the tap fee rates in line with North Marshall District's actual cost will result in a fair, just or reasonable rate. In addition, over time, under-recovery of a particular charge will degrade the utility's financial condition.

¹⁶³ North Marshall District's Response to Staff's First Request, Item 18, 18_NMWD_meter_Cost_Justification.pdf.

¹⁶⁴ Staff's Report at 10.

SUMMARY

As discussed in the beginning of this Order, North Marshall District reported an error in its notice of this application. The Commission, on its own motion, grants deviation from 807 KAR 5:076 Section 5(2)(b)(3). The Commission finds good cause to justify this deviation, as it appears to be a publishing error. North Marshall District caught this error on its own and promptly informed the Commission.¹⁶⁵ While best practice would have been for North Marshall District to request a deviation, a one-week delay in publication of notice does not prejudice any customer. Furthermore, North Marshall District filed documentation that notice was printed on April 17, 2025, April 24, 2025, and May 1, 2025.¹⁶⁶

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Staff's Report, along with the above stated modifications, are supported by the evidence of record and are reasonable. Applying the OR Method to North Marshall District's pro forma operations results in an Overall Revenue Requirement of \$2,776,758 and that a \$352,957 revenue increase, or 14.80 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's Report, as modified above, are adopted and incorporated by reference into this Order as if fully set out herein.

¹⁶⁵ NMWD informing the PSC of a publication error and corrective action of the District, (Apr. 15, 2025), NMWD_Letter_And_Case_No._225-00102.pdf.

¹⁶⁶ North Marshall District's Customer Notice (filed Aug. 4, 2025), Notice_4-24-25.pdf, Notice_5-1-25.pdf; North Marshall District's Customer Notice (filed Aug. 22, 2025), NMWD_copy_April_17_Public_notice.pdf.

2. The water service rates proposed by North Marshall District are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by North Marshall District on or after the date of this Order.
4. Within 20 days of the date of service of this Order, North Marshall 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. The Commission, on its own motion, grants a deviation from 807 KAR 5:076 Section 5(2)(b)(3).
6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

ATTEST:

Linda Tridwell *QP*
Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00102 DATED FEB 10 2026

* Denotes Rounding

Nonrecurring Charges Adjustments

Connection/Turn-on Charge (Transfer/Reading Fees)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ 13.67	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 14.28	\$ -	
Transportation	\$ 5.60	\$ 5.60	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 33.55	\$ 6.00	
Current Rate	\$ 5.25		
Connection/Turn-on Charge (After Hours)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ 81.99	\$ 81.99	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 7.14	\$ -	
Transportation	\$ 11.20	\$ 11.20	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 100.33	\$ 94.00	
Current Rate	\$ 92.50		
Field Collection Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ 13.67	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 7.14	\$ -	
Transportation	\$ 5.60	\$ 5.60	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 26.41	\$ 6.00	
Current Rate	\$ 5.25		

Meter Box or Lid Replacement Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ -	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ -	\$ -	
Transportation	\$ -	\$ -	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ -	\$ -	
Current Rate	Actual Cost	Actual Cost	
Meter Re-Installation Charge (Meter Install Fee)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ 27.33	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 14.28	\$ -	
Transportation	\$ 11.20	\$ 11.20	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 52.81	\$ 12.00	
Current Rate	\$ 10.50		
Meter Relocation Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ -	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ -	\$ -	
Transportation	\$ -	\$ -	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ -	\$ -	
Current Rate	Actual Cost	Actual Cost	
Meter Reread			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ 13.67	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 7.14	\$ -	
Transportation	\$ 5.60	\$ 5.60	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 26.41	\$ 6.00	
Current Rate	\$ 5.25		

Meter Test Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ 27.33	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 14.28	\$ -	
Transportation	\$ 14.00	\$ 14.00	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 55.61	\$ 14.00	
Current Rate	\$ 13.00		
Reconnection Charge (Turn Off Fee)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ 27.33	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 14.28	\$ -	
Transportation	\$ 22.40	\$ 22.40	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 64.01	\$ 23.00	
Current Rate	\$ 21.00		
Reconnection Charge (After Hours)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ 81.99	\$ 81.99	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 14.28	\$ -	
Transportation	\$ 16.80	\$ 16.80	
Misc.	\$ -	\$ -	
Total Revised Charge*	\$ 113.07	\$ 99.00	
Current Rate	\$ 98.00		
Returned Check Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$ -	
Field Labor	\$ -	\$ -	
Office Supplies	\$ -	\$ -	
Office Labor	\$ 9.52	\$ -	
Transportation	\$ -	\$ -	
Misc.	\$ 15.73	\$ 15.73	
Total Revised Charge*	\$ 25.25	\$ 16.00	
Current Rate	\$ 15.60		

5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge			
	Utility Revised Charge	Staff Revised Charge	
Materials Expense	\$ 769.35	\$ 769.35	
Service Pipe Expense	\$ 24.50	\$ 24.50	
Installation Labor Expense	\$ 339.01	\$ 339.01	
Installation Equipment Expense	\$ 392.50	\$ 392.50	
Installation Miscellaneous Expense	\$ -	\$ -	
Overhead Expense	\$ -	\$ -	
Administrative Expense	\$ -	\$ -	
Total Revised Charge*	\$ 1,525.36	\$ 1,526.00	
Current Rate	\$ 1,400.00		

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00102 DATED FEB 10 2026

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

Bi-Monthly Water Rates

<u>5/8" x 3/4" Meter</u>	\$ 35.39	Minimum Bill
<u>1" Meter</u>	\$ 45.33	Minimum Bill
<u>1 1/2" Meter</u>	\$ 61.93	Minimum Bill
<u>2" Meter</u>	\$ 95.13	Minimum Bill
<u>3" Meter</u>	\$ 128.33	Minimum Bill
<u>4" Meter</u>	\$ 194.73	Minimum Bill
<u>6" Meter</u>	\$ 360.73	Minimum Bill
 <u>All Water Usage</u>	\$ 0.00406	Per Gallon

Nonrecurring Charges	Revised Charge
Connection/Turn-on Charge (Transfer/Reading Fees)	\$ 6.00
Connection/Turn-on Charge (After Hours)	\$ 94.00
Field Collection Charge	\$ 6.00
Meter Re-Installation Charge (Meter Install Fee)	\$ 12.00
Meter Reread	\$ 6.00
Meter Test Charge	\$ 14.00
Reconnection Charge (Turn Off Fee)	\$ 23.00
Reconnection Charge (After Hours)	\$ 99.00
Returned Check Charge	\$ 16.00
 <u>Meter Connection/Tap-On Charge</u>	
5/8-Inch x 3/4-Inch Meter	\$ 1,526.00

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