COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF FOUNTAIN RUN WATER DISTRICT #1 FOR A RATE ADJUSTMENT PURSUANT TO 807 KAR 5:076	)))	CASE NO. 2026-00106

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of July 15, 2026, the attached report containing the recommendations of Commission Staff (Staff) regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's July 15, 2026, Order, Fountain Run Water District #1 (Fountain Run District #1) is required to file written comments regarding the recommendations of Staff no later than 14 days from the date of service of this report. The Commission directs Fountain Run District #1 to the Commission's July 22, 2021, Order in Case No. 2020-00085[1] regarding filings with the Commission.

Justin McNeil
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601-8294

DATED NOV 3 2026

cc: Parties of Record

[1] Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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COMMISSION STAFF'S REPORT ON FOUNTAIN RUN WATER DISTRICT #1

Fountain Run Water District #1 (Fountain Run District #1) 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 523 residential customers, 21 commercial customers, and 1 Sales for Resale customer that reside in Allen, Barren, and Monroe counties, Kentucky.[1]

On June 29, 2026,[2] Fountain Run District #1 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,[3] Fountain Run District #1 used the calendar year ended December 31, 2025, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No.

[1] *Annual Report of Fountain Run Water District # 1 to the Public Service Commission for the Calendar Year Ended December 31, 2025* (2025 Annual Report) at 12 and 49.

[2] Fountain Run District #1 tendered its application on April 30, 2026. By letter dated April 30, 2026, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on June 29, 2026.

[3] 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.

2024-00376,[4] which required Fountain Run District #1 to file an application for an adjustment of its base rates by July 31, 2025.[5] On June 10, 2026, the Commission granted Fountain Run District #1 an extension until June 30, 2026, to file the application.[6] Fountain Run District #1's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2018-00205.[7] Since that matter, Fountain Run District #1 has only adjusted its rates pursuant to one purchased water adjustment.[8] To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated July 15, 2026.[9] Fountain Run District #1 responded to two requests for information.[10]

UNACCOUNTED-FOR WATER LOSS

Over the last five years Fountain Run District #1 reported an average water loss of 21.8055 percent,[11] as shown in the table below.

[4] *See* Case No. 2024-00376, *Electronic Purchased Water Adjustment of Fountain Run Water District No.1.*

[5] Case No. 2024-00376, Order (Ky. PSC Jan. 7, 2025) at 6, ordering paragraph 5.

[6] Order (Ky. PSC June 10, 2026), at 3, Ordering paragraph 2.

[7] Case No. 2018-00205, *Application of Fountain Run Water District #1 for Rate Adjustment Pursuant to* 807 KAR 5:076 (filed June 19, 2018), Fountain Run Water District Application.

[8] See Case No. 2024-00376, *Electronic Purchased Water Adjustment of Fountain Run Water District No. 1.*

[9] Order (Ky. PSC July 15, 2026).

[10] Fountain Run District #1's Response to Staff's First Request for Information (Staff's First Request) (filed Aug. 25, 2026); Fountain Run District #1's Response to Staff's Second Request for Information (Staff's Second Request) (filed Sept. 22, 2026).

[11] *Annual Report of Fountain Run District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 57; *Annual Report of Fountain Run District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 57; *Annual Report of Fountain Run District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 57; *Annual Report of Fountain Run District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report) at 46; 2025 Annual Report at 58.

Year	Water Loss Percentage
2021	28.1364%
2022	21.9626%
2023	15.9395%
2024	20.7660%
2025	22.2228%
Average	21.8055%

Staff notes that in its 2025 Annual Report, Fountain Run District #1 reported a water loss of 22.2228 percent. Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2025 total annual cost of water loss to Fountain Run District #1 is $27,413, while the annual cost of water loss in excess of 15 percent is $8,910.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	108,948	14,409	$ 123,357
Water Loss Percent	22.2228%	22.2228%	22.2228%
Total Water Loss	$ 24,211	$ 3,202	$ 27,413

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	$ 108,948	$ 14,409	$ 123,357
Water Loss in Excess of 15%	7.2228%	7.2228%	7.2228%
Disallowed Water Loss	$ 7,869	$ 1,041	$ 8,910

DISCUSSION

Using its pro forma test-year operations from the amended application, Fountain Run District #1 proposed a base rate revenue increase of $33,800,[12] or 9.65 percent,[13] was necessary to achieve the revenue requirement as shown in the table below.

Description	Fountain Run District #1
Pro Forma Operating Expenses	$ 299,164
Total Other Expenses	81,950
Average Annual Principal and Interest Payments	33,011
Additional Working Capital at 20%	6,602
Total Revenue Requirement	420,727
Other Revenue ( )	(9,951)
Interest & Nonutility Income ( )	(26,688)
Revenue Required From Water Sales	384,088
Revenue from Sales at Present Rates ( )	(350,289)
Required Revenue Increase / (Decrease)	$ 33,799
Percentage Increase / (Decrease)	9.65%

To determine the reasonableness of the rates requested by Fountain Run District #1, Staff performed a limited review of Fountain Run District #1's test-year operations. The scope of Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and

[12] Staff noted in its review of the application that Fountain Run District #1 added $1 to its proposed revenue requirement calculation, resulting in an amount of $33,800. Without the additional $1, the proposed revenue requirement should be $33,799. This results in a $1 discrepancy in the proposed revenue requirements.

[13] Amended Application (filed June 27, 2026), Attachment 4, Schedule of Adjusted Operations (SAO), Revenue Requirements Table.

measurable[14] changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Fountain Run District #1's Overall Revenue Requirement, while Manuel Jerez Tamayo and Ryan Mattingly reviewed Fountain Run District #1's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Staff found that Fountain Run District #1's required revenue from water sales is $380,598 to meet an Overall Revenue Requirement of $417,085, and that a $30,309, or 8.65 percent, increase to revenue from sales at present rates is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Fountain Run District #1 proposed a 9.65 percent rate increase[15] that would be allocated evenly across the board for all its water customers.[16] Fountain Run District #1 stated that it did not perform a cost of service study (COSS),[17] noting that it did consider filing a COSS, but there were no material

[14] Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes."

[15] Amended Application, Attachment 2.

[16] The rate increase percentages provided in the Amended Application, Attachment #1, Customer Notice of Proposed Rate Adjustments, were incorrect due to rounding errors in the calculations; the proposed rate amounts were not rounded to five decimal places.

[17] Fountain Run District #1's Response to Staff's First Request, Item 11a.

changes in its operation, thus a COSS would provide a very limited benefit when compared to the cost of the study.[18] The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.[19] The rates set forth in Appendix B to this report are based upon the pro forma revenue requirement, as calculated by Staff, and will produce sufficient revenues from water sales to recover the $380,598 revenue required from rates, an approximate 8.65 percent increase. The rate increase will increase the monthly water bill for a typical residential customer using approximately 4,000 gallons per month from $35.82 to $38.92 for an increase of $3.10 or approximately 8.65 percent.[20]

3. Nonrecurring Charges. Following the Commission's previous decisions identifying issues with the calculation of Nonrecurring Charges,[21] Staff reviewed Fountain Run District #1's Nonrecurring Charges. Since utility personnel are already compensated

[18] Fountain Run District #1's Response to Staff's First Request, Item 11a and 11b.

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

[20] $38.92 (Average Bill New Water Rates) - $35.82 (Average Bill Current Water Rates) = $3.10 (Total Difference in Customer Bill) ÷ $35.82 (Average Bill Current Water Rates) = 8.65 percent.

[21] 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).

for labor performed during regular business hours, estimated labor costs for performing work during regular business hours, if included in determining Nonrecurring Charge Expense, should be eliminated from the charges. Fountain Run District #1's personnel are currently paid during normal business hours, and their salaries and wages are an expense recovered in rates; thus, there is no additional employee compensation incurred as a nominal expense arising from a nonrecurring charge service provided during regular business hours. Fountain Run District #1 provided updated cost justification information, which included estimated labor costs for most of the Nonrecurring Charges,[22] as well as a list of the number of occurrences for each of its Nonrecurring Charges.[23] Staff reviewed the cost justification information provided by Fountain Run District #1 and adjusted the charges by removing Field Labor Costs and Office/Clerical Labor Costs that occur during regular business hours from those charges. The cost justification information shown in Appendix A to this report supports the adjustments recommended by Staff. Staff recommends accepting the revised charges for the Nonrecurring Charges listed in the table below.

Nonrecurring Charge	Current Charge	Revised Charge
Connection / Turn-on Charge	$40.00	$10.00
Meter Relocation Charge	Actual Cost	Actual Cost
Meter Re-read Charge	$25.00	$25.00
Meter Test Charge	$50.00	$20.00
Re-connection Charge	$50.00	$16.00
Returned Check Charge	$25.00	$12.00
Service Call / Investigation	$25.00	$10.00
Service Line Inspection	$50.00	$50.00

[22] Fountain Run District #1's Response to Staff's First Request, Item 15; Fountain Run District #1's Response to Staff's Second Request, Item 7.

[23] Fountain Run District #1's Response to Staff's First Request, Item 14, 2025_non_recurring.pdf.

Fountain Run District #1 provided an updated cost justification for its 5/8-Inch x 3/4-Inch meter Connection/Tap-On Charge.[24] Staff reviewed the cost justification provided by Fountain Run District #1 and recommends the Commission increase the 5/8-Inch x 3/4-Inch meter Connection/Tap-On Charge as shown in the table below and justified by the amounts provided in the supporting documentation.[25]

Description	Current Charge	Revised Charge
5/8-Inch x 3/4-Inch Water Tap On	$ 1,305.64	$ 1,465.00
All Large Meters	Actual Cost	Actual Cost

PRO FORMA OPERATING STATEMENT

Fountain Run District #1's Pro Forma Operating Statement for the test year ended December 31, 2025, as determined by Staff appears in the table below.

[24] Fountain Run District #1's Response to Staff's Second Request, Item 8, Resp_8_Avg_Mtr_Conn_Cost_Just.pdf.

[25] Fountain Run District #1's Response to Staff's Second Request, Item 8, Resp_8_Avg_Mtr_Conn_Cost_Just.pdf.

Description	Test Year	Fountain Run District #1 Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
Operating Revenues						
Total Sales of Water	$ 342,454	$ 7,835	$ -	$ 7,835	(A)	$ 350,289
Other Water Revenues	9,951	-	(152)	(152)	(B)	9,799
Total Operating Revenues	352,405	7,835	(152)	7,683		360,088
Operation Expenses						
Salaries and Wages - Employees	99,347	(99)	99	-	(C)	
		12,294	11,662	23,956	(D)	123,303
Salaries and Wages - Commissioners	5,900		(5,900)	(5,900)	(E)	0
Employee Benefits - Medical	-	-		-		-
Employee Benefits - Retirement (CERS)	-	-		-		-
Purchased Water	108,948	(7,869)	-	(7,869)	(F)	101,079
Purchased Power	14,409	(1,041)	-	(1,041)	(F)	13,368
Repairs and Maintenance	5,866	(231)	231	-	(C)	
			500	500	(B)	6,366
Office Expense	16,687	-		-		16,687
Insurance	18,721	-		-		18,721
Professional Fees	13,140	-		-		13,140
Analysis Fees	5,733	-		-		5,733
Bad Debt	1,488	-		-		1,488
Transportation	2,434	-		-		2,434
Miscellaneous Expense	325	-		-		325
Rate Case Expense	-	3,112	-	3,112	(G)	3,112
Total	292,998	6,166	6,592	12,758		305,756
Depreciation	67,416	5,993	(11,126)	(5,133)	(H)	62,283
Taxes	8,438	103	892	995	(I)	9,433
Total Operating Expenses	368,852	12,262	(3,642)	8,620		377,472
Net Operating Income	(16,447)	(4,427)	3,490	(937)		(17,384)
Interest Income	4,254	-		-		4,254
Non-Utility Income	22,434	-		-		22,434
Income Available to Service Debt	10,241	(4,427)	3,490	(937)		9,304

(A) Total Sales of Water. Fountain Run District #1 proposed an increase of $7,835[26] to Operating Revenues and provided a billing analysis listing the water usage and water sales revenue for the 12-month test year of 2025, with total metered water sales revenue calculated as $350,289.[27] During the test year, Fountain Run District #1 reported $342,454 in Water Sales.[28]

[26] Amended Application, Attachment 4, SAO, Adjustment A.

[27] Amended Application, Attachment 12, Existing Billing Analysis Tab, Cell G10.

[28] Amended Application, Attachment 12, Existing Billing Analysis Tab, Cell G11.

Staff recommends the Commission accept Fountain Run District #1's proposed increase of $7,835 to Water Sales as it normalizes water service revenues to the amounts reported in its billing analysis.

(B) Other Water Revenues. During the test year, Fountain Run District #1 reported Other Water Revenue of $9,951,[29] comprised of $9,031 in Late Penalties, $720 in Connect / Turn-On charges, and $200 in Re-connection charges.[30] Fountain Run District #1 reported revenues collected from the Meter Relocation and Returned Check nonrecurring charges in Repairs and Maintenance and Bad Debt expense accounts, respectively.[31]

As previously explained in the Nonrecurring Charges portion of the Summary of Findings, Staff adjusted the charges by removing Field Labor Costs and Office/Clerical Labor Costs that occur during regular business hours resulting in a decrease of $540 and $136 to Connect / Turn-On charges and Re-connection charges, respectively.

Staff reviewed Fountain Run District #1's General Ledger and located the Meter Relocation transaction in the Repairs and Maintenance expense.[32] Staff made an adjustment to increase Repairs and Maintenance. The reduction should have been included as a revenue account instead, resulting in a corresponding adjustment increasing Repairs and Maintenance Expense of $500.

[29] Amended Application, Attachment 4, SAO.

[30] Fountain Run District #1's Response to Staff's First Request, Item 17.

[31] Fountain Run District #1's Response to Staff's Second Request, Item 9.

[32] Fountain Run District #1's Response to Staff's First Request, Item 3a, 3a_Gen_Ledger_2025.xlsx, row 4,406.

Fountain Run District #1 reported collecting $50 for Returned Checks during the test year;[33] however, Staff reviewed Fountain Run District #1's General Ledger and the Returned Check nonrecurring charges credited to the Bad Debt Expense account could not be located.[34] Therefore, no corresponding adjustment to Bad Debt Expense is required.

Based on the number of occurrences during the test period and Staff's recommended Nonrecurring Charge amounts, Staff calculated a pro forma revenue amount for Nonrecurring Charges of $9,799, a decrease to the test period nonrecurring charge income of $152, as shown in the following table.

Charge	Occurrences	Current	Revised Charge	Test	Adjustment	Pro Forma
Connection / Turn-on Charge	18	$40.00	$10.00	$ 720	$ (540)	$ 180
Meter Relocation Fee	1	Actual Cost	Actual Cost	-	500	500
Re-connection Charge	4	$50.00	$16.00	200	(136)	64
Returned Checks	2	$25.00	$12.00	-	24	24
Late Charges (10%)	3,301	10%	10%	9,031	-	9,031
Total Other Water Revenues				$ 9,951	$ (152)	$ 9,799

Staff recommends the Commission accept Staff's adjustment to decrease Other Water Revenue by $152 based on the adjustments to Nonrecurring Charges discussed above and because they meet the ratemaking criteria of being known and measurable and follow appropriate accounting principles.

(C) Expenses Related to Meter Installations. In its application, Fountain Run District #1 proposed an adjustment to decrease Salaries and Wages – Employees by

[33] Fountain Run District #1's Response to Staff's First Request, Item 14, 2025_non_recurring.pdf.

[34] Fountain Run District #1's Response to Staff's First Request, Item 3a, 3a_Gen_Ledger_2025.xlsx, rows 4,170 through 4,172.

$99[35] and Repairs and Maintenance by $231,[36] to account for tap fee expenses that were included as part of these tap expenses during the test year.[37] The USoA requires that costs, such as tap fee expenses, be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.[38] During the test year, Fountain Run District #1 installed 2 new water connections,[39] and reported collecting $330.[40] Staff reviewed Fountain Run District #1's General Ledger[41] and determined that labor expenses related to Salaries and Wages – Employees were already capitalized. During discovery, Fountain Run District #1 also confirmed the adjustment should not have been proposed.[42] Staff disagrees with Fountain Run District #1's proposed adjustments to Salaries and Wages – Employees and Repairs and Maintenance as the labor and material expenses related to tap installations were already capitalized.

Staff recommends the Commission reject Fountain Run District #1's proposed $99 decrease to Salaries and Wages – Employees and $231 decrease to Repairs and Maintenance in order to prevent the double accounting of the water connections costs as instructed by the USoA.

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[35] Amended Application, Attachment 4, SOA, Adjustment B.

[36] Amended Application, Attachment 4, SOA, Adjustment D.

[37] Amended Application, Attachment 4, SOA, Adjustment B and D.

[38] Uniform System of Accounts (UsoA), Accounting Instruction 19 and 33.

[39] Fountain Run District #1's Response to Staff's Second Request, Item 4a, Billing Analysis in Excel.

[40] Amended Application, Attachment 12, Tap Fees Tab, Cell D6.

[41] Fountain Run District #1's Response to Staff's First Request, Item 3a, 3a_Gen_Ledger_2025.xlsx, Cells G1364, G1380, G3615, G4424.

[42] Fountain Run District #1's Response to Staff's Second Request, Item 4b.

(D) Salaries and Wages - Employees. During the test year, Fountain Run District #1 reported $99,347 in Salaries and Wages – Employees and proposed two adjustments.[43] Fountain Run District #1 proposed a $12,294 increase to Salaries and Wages – Employees to account for changes in wage rates.[44] Fountain Run District #1 provided the test-year employee list, wage rate, and hours worked.[45] Fountain Run District #1 has two full-time employees and one part-time employee.[46] Fountain Run District #1 stated that its current operator will retire in November and he will be replaced by a new full-time operator who started on August 3, 2026.[47] Since the current operator is scheduled to retire in November, Staff did not include their wages in its calculations. Staff normalized the pro forma regular hours for all full-time hourly employees to current wage rates,[48] excluding the operator who will retire in November, to 2,080. Staff calculated total Salaries and Wages – Employees of $123,303, an increase to the test year of $23,956 as shown in the table below.

[43] Amended Application, Attachment 4, SAO, Adjustment B.

[44] Amended Application, Attachment 4, SAO, Adjustment B.

[45] Amended Application, Attachment 12, Wages and Benefits Tab.

[46] Amended Application, Attachment 12, Wages and Benefits Tab.

[47] Fountain Run District #1's Response to Staff's First Request, Item 19b.

[48] Fountain Run District #1's Response to Staff's First Request, Item 19b and Fountain Run District #1's Response to Staff's Second Request, Item 2.

Employee ID	Employee Position	Annual Reg. Hrs	Overtime Hours	Pro Forma Wage Rate	Pro Forma Reg. Wages	Pro Forma Overtime Wages	Pro Forma Wages
1	General Manager	2,080	-	$ 23.46	$ 48,797	-	$ 48,797
2	Office Manager	2,080	-	$ 18.82	39,146	-	39,146
3	New full time employee	2,080	-	$ 17.00	35,360	-	35,360
	Total	6,240	-		$ 123,302	$ -	123,303
	Test Year Salaries and Wages - Employees ( )						(99,347)
	Total Adjustment						23,956
	Fountain Run District's Proposed Adjustment						(12,294)
	Difference						$ 11,662

Staff recommends the Commission accept Staff's increase of $23,956 since it reflects the normalization of full-time employees' hours worked at current wage rates.

(E) Salaries and Wages – Commissioners. Fountain Run District #1 did not propose any adjustments to Salaries and Wages – Commissioners. Fountain Run District #1's board of commissioners (Board) has five members who are each paid $1,200 annually.[49] Fountain Run District #1 provided the most recent training records for each commissioner except for Frances Howard and the Fiscal Court minutes approving their appointments.[50] For Frances Howard, Fountain Run District #1 provided an affidavit of training completion instead.[51] However, Fountain Run District #1 was unable to provide the Fiscal Court minutes that authorized any compensation for Board members;[52] therefore, Staff excluded wages for each commissioner in its calculation. Staff calculated a total Salaries and Wages – Commissioners of $0, resulting in a decrease of $5,900.

[49] Fountain Run District #1's response to Staff's First Request, Item 8a.

[50] Fountain Run District #1's response to Staff's First Request, Item 8b, Frances_Howards_Commissioner_Forms.pdf, Jeremy_Jones_Commissioner_Forms.pdf, JohnPedigosCommissionerForms.pdf, OwenLambertsCommissionForms.pdf, WillDowningsCommissionerForms.pdf.

[51] Fountain Run District #1's response to Staff's Second Request, item 6, Frances_Howard_Training.pdf.

[52] Fountain Run District #1's response to Staff's First Request, Item 8b.

Staff recommends the Commission accept Staff's adjustment to decrease Salaries and Wages – Commissioners by $5,900 since there is no evidence in the case records that reflect the authorization of commissioner compensation.

(F) Excess Water Loss. In its application, Fountain Run District #1 proposed an adjustment to decrease Purchased Water Expense by $7,869 and Purchased Power Expense by $1,041 to reflect the disallowance of water loss expense in excess of 15 percent. During the test year, Fountain Run District #1 reported a water loss of 22.2228 percent.[53] Commission regulations state that for ratemaking purposes, recovery for the expenses related to unaccounted for water loss in excess of 15 percent is not permissible.[54] Fountain Run District #1's test year indicated $108,948 in Purchased Water Expense and $14,409 in Purchased Power Expense.[55] In the table below, Staff calculated a Disallowed Water Loss Expense of $8,910. Staff agreed with Fountain Run District #1's adjustment to reduce Purchased Water Expense by $7,869 and Purchased Power Expense by $1,041. The table below summarizes the disallowed Purchased Water and Purchased Power expenses for Fountain Run District #1.

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	$ 108,948	$ 14,409	$ 123,357
Water Loss in Excess of 15%	7.2228%	7.2228%	7.2228%
Disallowed Water Loss	$ 7,869	$ 1,041	$ 8,910

[53] 2025 Annual Report at 57.

[54] 807 KAR 5:066 (Water), Section 6(3) (Water Supply Management).

[55] 2025 Audited Financial Statements at 12.

Staff recommends the Commission accept Fountain Run District #1's proposed adjustment, since the amounts reflect the limit to costs related to excess water loss of 15 percent.

(G) Rate Case Expense. In the application Fountain Run District #1 proposed an adjustment to increase Rate Case Expense by $3,112 to account for the rate case expense arising from this application being amortized over three years.[56] Fountain Run District #1 contracted with Kentucky Rural Water Association (KRWA) to assist with the application.[57] KRWA provided an estimated total cost not to exceed $9,335 quote for consulting services to prepare the rate case.[58] Fountain Run District #1 then proposed to amortize $9,335 over three years for an annual amount of $3,112. Staff agrees with the recovery of the costs over three years because utilities are expected to file for a rate case every three to five years. Staff calculated the annual rate case expense by dividing the estimated rate case expense of $9,335 over a three-year period, resulting in an annual cost of $3,112, as shown below.

Description	Amount
Estimated Rate Case Cost	$ 9,335
Amortization Years	3
Annual Rate Case Expense	$ 3,112

Staff recommends the Commission accept Fountain Run District #1's increase of $3,112 to Rate Case Expense to reflect the recovery of the estimated Total Rate Case Expense over a three-year period because the amounts are known and measurable.

[56] Amended Application, Attachment 4, SAO, Adjustment E.

[57] Fountain Run District #1's Response to Staff's First Request, Item 18b.

[58] Fountain Run District #1's Response to Staff's First Request, Item 18a, Quote_KRWA.pdf.

(H) Depreciation. During the test year, Fountain Run District #1 reported $67,416 in Depreciation Expense.[59] Fountain Run District #1 proposed one adjustment, an increase of $5,993 to bring asset lives to the midpoint of the ranges recommended by the National Association of Regulatory Utility Commissioners (NARUC) in its publication: *Depreciation for Small Utilities*.[60] To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC study.[61] When no evidence exists to support a specific life that is outside NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.[62] In its application, Fountain Run District #1 provided a depreciation schedule of all fixed assets in use.[63] Staff reviewed and recalculated the depreciation schedules using NARUC's midpoint useful life ranges as shown in the table below. Staff calculated a $5,133 decrease to Depreciation Expense which is $11,126 less than Fountain Run District #1's proposed adjustment.

[59] Amended Application, Attachment 4, SAO, Adjustment F.

[60] Amended Application, Attachment 4, SAO, Adjustment F.

[61] Depreciation Practices for Small Water Utilities (1979).

[62] 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.

[63] Amended Application, Attachment 7.

Asset Class	NARUC Recommended Service Lives	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Structures and Improvements	35 - 40	$ 1,347	$ -	$ 1,347
Communication & Computer Equipment	10	884	-	884
Hydrants	40 - 60	935	811	1,746
Transmissions & Dist. Mains	50 - 75	13,906	94	14,000
Meter Installation	40 - 50	1,278	(142)	1,136
Meters	20	10,552	(2,724)	7,828
Services	30 - 50	305	76	381
Dist. Reservoirs & Standpipes	30 - 60	35,531	(1,640)	33,891
Power Automated Equipmemt	10 - 15	2,679	(1,608)	1,071
Total		$ 67,416	(5,133)	$ 62,284
Less: Fountain Run County District's Proposed Adjustment ( )			(5,993)	
Difference			$ (11,126)	

Staff recommends the Commission accept Staff's $5,133 adjustment, which is a decrease of $11,126 to Fountain Run District #1's proposed Depreciation Expense adjustment, as it is known and measurable and reflects the adjusted lives to those recommended in the NARUC study.

(l) Taxes other than Income – Federal Insurance Contribution Act (FICA). During the test year, Fountain Run District #1 reported $8,438 in Taxes and proposed one adjustment.[64] Fountain Run District #1 proposed an increase of $103 to reflect the increase in payroll taxes as a result of increased wages.[65] As explained in the Salaries and Wages – Employee adjustment, Staff calculated Fountain Run District #1's pro forma Salaries and Wages – Employees as $123,303 and calculated pro forma Salaries and Wages - Officers of $0. Staff calculated the Pro Forma Payroll Taxes of $9,433, a total increase of $995 as shown in the table below.

[64] Amended Application, Attachment 4, SAO, Adjustment G.

[65] Amended Application, Attachment 4, SAO, Adjustment G.

Description	Amount
Salaries and Wages - Employees	$ 123,303
Salaries and Wages - Officers	-
Total Salaries and Wages	123,303
Times: 7.65 Percent FICA Rate	7.65%
Pro Forma Payroll Taxes	9,433
Test Year Payroll Taxes ( )	(8,438)
Total Adjustment	995
Fountain Run District #1's Proposed Adjustment ( )	(103)
Difference	$ 892

Staff recommends the Commission accept Staff's additional increase for a total adjustment of $995 to Taxes Other Than Income, because it is a known and measurable change that is a direct result of changes to Salaries and Wages – Employees.

OVERALL REVENUE REQUIREMENT

In its application, Fountain Run District #1 proposed using the Debt Service Coverage (DSC) method.[66] The Commission has historically applied a DSC method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;[67] (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

[66] Amended Application, Attachment 12, Revenue Requirement Tab.

[67] The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. *See Public Serv. Comm'n of Kentucky v. Dewitt Water Dist*., 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement.

Description	Fountain Run District #1	Commission Staff
Pro Forma Operating Expenses	$ 299,164	$ 305,756
Total Other Expenses	81,950	71,716
Average Annual Principal and Interest Payments	33,011	33,011
Additional Working Capital at 20%	6,602	6,602
Total Revenue Requirement	420,727	417,085
Other Revenue ( )	(9,951)	(9,799)
Interest & Nonutility Income ( )	(26,688)	(26,688)
Revenue Required From Water Sales	384,088	380,598
Revenue from Sales at Present Rates ( )	(350,289)	(350,289)
Required Revenue Increase / (Decrease)	$ 33,799	$ 30,309
Percentage Increase / (Decrease)	9.65%	8.65%

Average Annual Principal and Interest Payments and Additional Working Capital. At the time of Staff's review, Fountain Run District #1 had two Waterworks Revenue Bonds purchased by the United States Department of Agriculture's Rural Development (RD). In its application, Fountain Run District #1 proposed recovery of the average annual principal and interest on its indebtedness in the amount of $33,011[68] based on a five-year average of the annual principal, interest, and fee payments for the years 2027 through 2031.[69] Staff reviewed the debt schedule provided,[70] amortization schedules,[71] and bond resolutions[72] and agrees with the methodology and amount Fountain Run District #1 proposed, as shown in the table below. The DSC method, as historically applied by the

[68] Amended Application, Attachment 4, SOA, Adjustment H.

[69] Amended Application, Attachment 4, SOA, Table B, Debt Service Schedule.

[70] Amended Application, Attachment 12, Debt Service Tab.

[71] Amended Application, Attachment 10.

[72] Amended Application, Attachment 11.

Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. Fountain Run District #1 requested recovery of an allowance for additional working capital that is equal to 20 percent of its average annual debt service, or $6,602.[73] Following the Commission's historic practice of including additional working capital, Staff agrees with Fountain Run District #1's proposed methodology and amount.

Debt Service					
	1988 Revenue Bond		2009 Revenue Bond		
Year	Principal	Interest	Principal	Interest	Total
2027	$ 11,000	$ 875	$ 16,000	$ 11,826	$ 39,701
2028	12,000	300	17,000	11,413	40,713
2029			17,000	10,988	27,988
2030			18,000	10,551	28,551
2031			18,000	10,101	28,101
Totals	$ 23,000	$ 1,175	$ 86,000	$ 54,879	165,054
Divided by 5 years					5
Average Annual Principal and Interest Payments					33,011
Additional Working Capital at 20%					$ 6,602

Staff recommends the Commission approve Fountain Run District #1's inclusion of $33,011 and $6,602 to the Revenue Requirement to account for average annual principal and interest payments, and additional working capital, respectively, because DSC methodology allows for the recovery of principal and interest payments and the Additional Working Capital is a direct result of the calculated Annual Debt Principal and Interest payments.

[73] Amended Application, Attachment 4, SOA, Adjustment I.

Additional Staff Comments

Pursuant to KRS 74.020(8)(a), each water district commissioner shall complete a 12-hour initial training program within 12 months of initial appointment and forfeits his or her office if the program is not completed within that period. However, KRS 74.020(9) permits the Public Service Commission to grant an extension of up to six months for good cause shown.

Based on information provided by Fountain Run District #1,[74] water district commissioners John Pedigo, Will Downing, and Jeremy Jones, attended the initial training taking place on August 18 and 19, 2026 in Owensboro, Kentucky.[75] Mr. Pedigo was first appointed on June 3, 2019.[76] Mr. Downing was first appointed on July 21, 2021.[77] Mr. Jones was first appointed on February 24, 2024.[78] None of these three commissioners completed the required initial training with 12 months or the additional six-month period subject to extension. Since the language of KRS 74.020(8)(a) is mandatory, Staff recommends a finding that these commissioners automatically forfeited their positions 12 months after each was appointed.[79] Staff recommends findings that Mr. Pedigo forfeited his position effective June 3, 2020, Mr. Downing forfeited his position effective July 21, 2022, and Mr. Jones forfeited his position effective February 24, 2025.

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[74] Fountain Run District #1's Response to Staff's Second Request, Item 1.

[75] *See* Case No. 2026-00243, *Electronic Accreditation and Approval of a Public Service Commission Water Personnel Training Seminar as a Water District Commissioner Training Program* (Ky. PSC Sept. 25, 2026), Order.

[76] Fountain Run District #1, 2020 Annual Report (filed Mar. 31, 2021) at 15.

[77] Fountain Run District #1, 2021 Annual Report (filed July 7, 2022) at 15.

[78] Fountain Run District #1, 2024 Annual Report (filed May 8, 2025) at 15.

[79] *See* Case No. 2023-00235, *Electronic Investigation into the Financial and Operating Capacity of Black Mountain Utility District* (Ky. PSC June 14, 2024), Order at 5.

Under KRS 74.020(4), “a vacancy resulting from the expiration of a term or the death, resignation, or removal of the incumbent shall be filled by the Public Service Commission if, within ninety (90) days following the vacancy, the vacancy has not been filled by the appropriate county judge/executive with approval of the fiscal court.” Staff recommends that the Commission open a case regarding the filling of the resulting vacancies.

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Signatures

/s/ William Foley
Prepared by: William Foley
Revenue Requirement Branch
Division of Financial Analysis

/s/ Manuel Jerez Tamayo
Prepared by: Manuel Jerez Tamayo
Rate Design Branch
Division of Financial Analysis

/s/ Ryan Mattingly
Prepared by: Ryan Mattingly
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2026-00106 DATED NOV 3 2026

* Denotes Rounding

Nonrecurring Charges Adjustments

Meter Test	Utility Revised Charge	Staff Revised Charge*
Field Materials	$ -	$ -
Field Labor (1 hr at $20.00/hr)	$ 20.00	$ -
Office Supplies	$ -	$ -
Office Labor (0.5 hrs at $20.00/hr)	$ 10.00	$ -
Transportation	$ -	$ -
Misc. (3rd Party Test Charge)	$ 20.00	$ 20.00
Total Revised Charge	$ 50.00	$ 20.00
Current Rate	$ 50.00	

Re-Connection	Utility Revised Charge	Staff Revised Charge*
Field Materials	$ -	$ -
Field Labor (1 hr at $20.36/hr)	$ 20.36	$ -
Office Supplies	$ -	$ -
Office Labor	$ 10.50	$ -
Transportation (20 miles @ $0.76 per mile)	$ 10.00	$ 15.20
Misc.	$ -	$ -
Total Revised Charge	$ 40.86	$ 16.00
Current Rate	$ 50.00	

Returned Check	Utility Revised Charge	Staff Revised Charge*
Field Materials	$ -	$ -
Field Labor	$ -	$ -
Office Supplies	$ 1.50	$ 1.50
Office Labor	$ 18.82	$ -
Transportation	$ -	$ -
Misc. (Bank Charge)	$ 10.00	$ 10.00
Total Revised Charge	$ 30.32	$ 12.00
Current Rate	$ 25.00	

Service Call / Investigation		
	Utility Revised Charge	Staff Revised Charge*
Field Materials	$ -	$ -
Field Labor (1 hr at $20.36/hr)	$ 20.36	$ -
Office Supplies	$ 2.00	$ 2.00
Office Labor (0.25 hrs at $20/hr)	$ 5.00	$ -
Transportation (10 miles @ $0.76 per mile)	$ 5.00	$ 7.60
Misc.	$ -	$ -
Total Revised Charge	$ 32.36	$ 10.00
Current Rate	$ 25.00	

Connection / Turn-On		
	Utility Revised Charge	Staff Revised Charge*
Field Materials	$ -	$ -
Field Labor (1 hr at $20.36/hr)	$ 10.18	$ -
Office Supplies	$ 1.50	$ 1.50
Office Labor (0.5 hr at $18.82/hr)	$ 9.41	$ -
Transportation (10 miles @ $0.76 per mile)	$ 5.00	$ 7.60
Misc.	$ -	$ -
Total Revised Charge	$ 26.09	$ 10.00
Current Rate	$ 40.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2026-00106 DATED NOV 3 2026

The following rates and charges are recommended by Commission Staff based on the adjustments in Commission Staff's Report for the customers in the area served by Fountain Run Water District #1. All other rates and charges not specifically mentioned herein shall remain the same.

Monthly Water Rates

5/8 X 3/4-Inch Meter			
First	2,000 Gallons	$20.60	Minimum Bill
Next	8,000 Gallons	0.00916	Per Gallon
Next	10,000 Galllons	0.00780	Per Gallon
Over	20,000 Gallons	0.00639	Per Gallon
1-Inch Meter			
First	5,000 Gallons	$48.08	Minimum Bill
Next	5,000 Gallons	0.00916	Per Gallon
Next	10,000 Gallons	0.00780	Per Gallon
Over	20,000 Gallons	0.00639	Per Gallon
2-Inch Meter			
First	20,000 Gallons	$171.88	Minimum Bill
Over	20,000 Gallons	0.00639	Per Gallon

Nonrecurring Charges

Connection / Turn-on Charge	$ 10.00
Meter Relocation Charge	Actual Cost
Meter Re-read Charge	$ 25.00
Meter Test Charge	$ 20.00
Re-connection Charge	$ 16.00
Returned Check Charge	$ 12.00
Service Call / Investigation	$ 10.00
Service Line Inspection	$ 50.00

Meter Connection/Tap-On Charges

5/8- x 3/4-Inch Water Tap On	$ 1,465.00
All Large Meters	Actual Cost

Service List for Case 2026-00106

* Chris Veach
Fountain Run Water District #1
226 Main Street
P.O. Box 118
Fountain Run, KY 42133

* Fountain Run Water District #1
226 Main Street
P.O. Box 118
Fountain Run, KY 42133

* Sue Purdy
Fountain Run Water District #1
226 Main Street
P.O. Box 118
Fountain Run, KY 42133

* Denotes served by Email