COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF CAMPBELLSVILLE MUNICIPAL WATER AND SEWER SYSTEM REVISING ITS WHOLESALE WATER SERVICE RATES	))))	CASE NO. 2026-00194

O R D E R

On June 18, 2026, Campbellsville Municipal Water and Sewer System (Campbellsville Water) filed proposed revisions to its wholesale water rates for Columbia/Adair Utilities District (Columbia/Adair District), East Casey County Water District (East Casey District), Green-Taylor Water District (Green-Taylor District), Larue County Water District #1 (Larue District #1), and Marion County Water District (Marion District) (collectively, the Districts), with a proposed effective date of August 1, 2026.[1]

Marion District, Columbia/Adair District, Green-Taylor District, and Larue District #1 submitted letters questioning whether the proposed $1.00 per 1,000 gallons increase reflected Campbellsville Water's cost of providing service and requesting a Commission investigation.[2] By Order entered July 31, 2026, the Commission established this proceeding, suspended the proposed rates through December 31, 2026, and established a procedural schedule.[3]

[1] Order (Ky. PSC July 31, 2026) at 1.

[2] Order (Ky. PSC July 31, 2026) at 1–2 and Appendix B.

[3] Order (Ky. PSC July 31, 2026) at 4–5, and Appendix A.

On August 28, 2026, Campbellsville Water filed responses to Commission Staff's (Staff's) First Request for Information, including a restated wholesale cost-of-service analysis and supporting financial, billing, and notice documents.[4] On October 29, 2026, Campbellsville Water filed a motion to submit this matter for decision on the existing record without an evidentiary hearing.[5] This matter now stands submitted for a decision on the record.

LEGAL STANDARD

Although a city-owned water utility is generally excluded from the definition of a utility under KRS 278.010(3), KRS 278.200 subjects rates and service established by agreement between a municipality and a regulated utility to the Commission's jurisdiction.[6] The Kentucky Supreme Court held that, when a city contracts to furnish water to a Commission-regulated utility, the city relinquishes its exemption with respect to the rates and service governed by that relationship.[7]

KRS 278.030(1) requires utility rates to be fair, just and reasonable. KRS 278.170(1) prohibits unreasonable preferences or advantages and unreasonable differences in rates for like service provided under the same or substantially the same conditions. Under KRS 278.190(3), Campbellsville Water bears the burden of demonstrating that its proposed increased rates are just and reasonable.[8]

[4] Campbellsville Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Aug. 28, 2026).

[5] Campbellsville Water's Motion to Submit for Decision (filed Oct. 29, 2026).

[6] KRS 278.010(3)(d); KRS 278.200.

[7] *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460, 463 (Ky. 1994).

[8] KRS 278.030(1); KRS 278.170(1); KRS 278.190(3).

DISCUSSION AND FINDINGS

Proposed Rates and Filing Clarifications

Campbellsville Water proposed increasing the volumetric rate for Columbia/Adair District, East Casey District, Larue District #1, and Marion District from $3.59 to $4.59 per 1,000 gallons, an increase of $1.00, or approximately 27.9 percent.[9] For Green-Taylor District, Campbellsville Water proposed increasing the volumetric rate from $3.36 to $4.36 per 1,000 gallons, an increase of $1.00, or approximately 29.8 percent.[10] Campbellsville Water clarified that the $4.46 rate for Green-Taylor District that appeared in proposed Ordinance No. 26-04 was a typographical error and that the intended rate was $4.36 per 1,000 gallons.[11] It also confirmed that the 27.90 percent increase stated in Green-Taylor District's notice was incorrect; the correct increase was 29.7619 percent, rounded to 29.8 percent.[12]

Campbellsville Water reported that Ordinance No. 26-04 had received a first reading on June 15, 2026, but had not been enacted when the responses were filed.[13] It explained that the July 1, 2026 date in the proposed ordinance referred to the beginning of the city's fiscal year and the intended municipal enactment date, while August 1, 2026, was the proposed effective date for water service.[14] Accordingly, the Commission

[9] Order (Ky. PSC July 31, 2026) at 1; Campbellsville Water's Response to Staff's First Request, Item 2.

[10] Campbellsville Water's Response to Staff's First Request, Item 4(d).

[11] Campbellsville Water's Response to Staff's First Request, Item 4(b).

[12] Campbellsville Water's Response to Staff's First Request, Item 4(d).

[13] Campbellsville Water's Response to Staff's First Request, Item 3 and Item 4(a).

[14] Campbellsville Water's Response to Staff's First Request, Item 4(c).

considers whether the requested wholesale volumetric rate increases of $4.36 and $4.59 per 1,000 gallons are fair, just and reasonable.

Cost of Service

In response to questions concerning the periods used in its original handwritten schedules, Campbellsville Water acknowledged that those schedules combined production, sales, expense, and debt-service information from different periods.[15] Campbellsville Water restated its analysis using the 12-month test period of July 1, 2025, through June 30, 2026, with supporting general ledger reports, billing records, debt schedules, and budget documents.[16] The analysis assembled annual water-system costs into water treatment; in-town transmission and distribution; out-of-town transmission and distribution; and administrative and general categories. It included $5,877,455.85 in operating expenses, including depreciation, and $954,824.08 in annual water-system debt service, for total annual revenue requirement of $6,832,279.93.[17]

Water-treatment and in-town transmission and distribution costs were allocated among the customer classes using their shares of test-period water sales.[18] Out-of-town transmission and distribution costs were allocated 95 percent to retail customers and 5 percent to wholesale customers, with no out-of-town allocation to Green-Taylor District

[15] Campbellsville Water's Response to Staff's First Request, Item 5(a)–(b).

[16] Campbellsville Water's Response to Staff's First Request, Item 1 at 1–3 and Item 5(d); Exhibit 1 at 000003–000004.

[17] Campbellsville Water's Response to Staff's First Request, Item 5(d); Exhibit 1, Tables 3-4 and 3-5 at 000013.

[18] Campbellsville Water's Response to Staff's First Request, Item 1(b); Exhibit 1, Table 1-3 at 000009 and Table 3-5 at 000013.

because it received water from the in-town system at Old Greensburg Road.[19] Administrative and general costs were assigned entirely to retail customers, and debt service on the regional water-system loan billed directly to Lebanon Water Works was excluded from the costs used to develop the Districts' rates.[20]

The analysis produced the following comparison of allocated annual costs and calculated cost-of-service rates with the existing and proposed rates. All rates are stated per 1,000 gallons.[21]

	Marion District	**Columbia/ Adair District**	**Green-Taylor District**	**Larue District #1**	**East Casey District**
Allocated Costs	$23,670.13	$32,932.36	$953,368.97	$34,476.06	$124,010.91
Volume Purchases July 2025 – June 2026 (in Gallons)	4,397,700	6,065,400	186,325,300	6,412,800	22,947,900
Cost of Service Rate	$5.3824	$5.4295	$5.1167	$5.3761	$5.4040
Proposed	$4.59	$4.59	$4.36	$4.59	$4.59
Current	$3.59	$3.59	$3.36	$3.59	$3.59

The Commission finds that the restated analysis provides a reasonable basis for evaluating the requested increase. It relates the costs assigned to the Districts to the facilities used to provide their service, distinguishes retail and wholesale costs, and

[19] Campbellsville Water's Response to Staff's First Request, Item 1(c); Exhibit 1, Table 3-5 at 000013, footnote 1.

[20] Campbellsville Water's Response to Staff's First Request, Item 1(d) and (f); Exhibit 1, Tables 3-2 and 3-3 at 000012 and Table 3-5 at 000013, footnote 2.

[21] Campbellsville Water's Response to Staff's First Request, Item 1; Exhibit 1 at 000004 and each District's Table 3-6 at 000014, 000024, 000034, 000044, and 000054.

supports the conclusion that the proposed volumetric rates are below the calculated cost of serving each District.

Rate Differential and Gradualism

Campbellsville Water explained that its Water and Sewer Committee reviewed wholesale service costs on April 15, 2026, and recommended a uniform $1.00 per 1,000 gallons increase as a moderate step toward cost-based rates.[22] It argued that the uniform dollar increase preserved the existing relationship between Green-Taylor District's rate and the rates charged the other Districts while limiting the immediate effect on the Districts and their retail customers.[23]

The Commission finds that retaining the $0.23 per 1,000 gallons differential between Green-Taylor District and the other Districts is reasonable. Green-Taylor District's service does not use the out-of-town facilities included in the allocations to the other Districts, and its calculated cost of service is lower.[24] The proposed rates preserve a distinction supported by the service conditions and do not create an unreasonable preference or difference in locality rates contemplated in KRS 278.170(1).

Campbellsville Water reported approximately $1,168,458 in costs allocated to the five Districts and $766,730 in actual test-period water-sales revenue, producing a historical wholesale revenue deficiency of approximately $401,728.[25] Applied to test-period purchases of 226,149,100 gallons, the requested $1.00 per 1,000 gallons increase

[22] Campbellsville Water's Response to Staff's First Request, Item 2 and Item 6(b).

[23] Campbellsville Water's Response to Staff's First Request, Item 2 and Item 6(b)–(c).

[24] Campbellsville Water's Response to Staff's First Request, Item 6(c); Exhibit 1 at 000004 and Table 3-5 at 000013, footnote 1.

[25] Campbellsville Water's Response to Staff's First Request, Item 7; Exhibit 1 at 000003–000004.

would produce approximately $226,149 in additional annual revenue compared with the existing volumetric rates.[26]

The Commission finds that a meaningful, measured movement toward the calculated cost of service is appropriate and consistent with the principle of gradualism. The requested increase provides additional revenue toward allocated wholesale costs while moderating the immediate effect of moving directly to full cost-based rates to minimize potential rate shock. As shown above, the proposed rate for every District remains approximately $1.00 per 1,000 gallons below its calculated cost-of-service rate. Campbellsville Water therefore will not recover its full allocated cost of service from any of the Districts under the rates approved herein.

The Commission finds that the cost-of-service evidence tendered by Campbellsville Water addresses the Districts' concern that a uniform $1.00 increase was arbitrary. The amount requested is supported by the identified cost deficiency, and retaining the existing differential is supported by the facilities used to provide service. Pursuant to the evidence of record, the Commission finds the proposed rates of $4.36 per 1,000 gallons for Green-Taylor District and $4.59 per 1,000 gallons for the other four Districts to be fair, just and reasonable. Although the evidence here indicates that Campbellsville Water's costs will continue to exceed expected revenue following implementation of the new rates, approval of these rates does not authorize the higher calculated cost-of-service rates or establish an automatic future increase.

[26] Campbellsville Water's Response to Staff's First Request, Item 7; Exhibit 1 at 000004.

Contractual Notice

Campbellsville Water acknowledged that its June 12, 2026 notice to Marion District was not provided 30 days before the June 15, 2026 first reading of the proposed ordinance, as contemplated by Section 9 of the parties' water purchase agreement.[27] Campbellsville Water stated that it would conform its future practice to that requirement.[28] Approval of the rates in this Order does not waive the parties' existing contractual notice requirements. The approved rates shall apply only to water service rendered on and after the effective date established herein.

IT IS THEREFORE ORDERED that:

1. The wholesale volumetric water rates set forth in the Appendix to this Order are approved for service rendered on and after the date of this Order.

2. The suspension of the approved wholesale volumetric rates imposed by the July 31, 2026 Order is lifted effective on the date of this Order. All other previously approved rates, charges, and service provisions applicable to the Districts remain in effect.

3. Within 20 days of the date of service of this Order, Campbellsville Water shall file revised tariff sheets through the Commission's electronic Tariff Filing System. The tariff sheets shall accurately reflect the rates and effective date approved herein and state that they were issued by authority of this Order.

[27] Campbellsville Water's Response to Staff's First Request, Item 10.

[28] Campbellsville Water's Response to Staff's First Request, Item 10.

4. The Executive Director shall serve a copy of this Order upon Columbia/Adair Utilities District, East Casey County Water District, Green-Taylor Water District, Larue County Water District #1, and Marion County Water District.

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

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Entered on this 19th day of November, 2026.

PUBLIC SERVICE COMMISSION

Angie Hatton
Chair

Mary Pat Regan
Vice Chair

Andrew W. Wood
Commissioner

Barry L. Mayfield
Commissioner

ATTEST:

Justin McNeil
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2026-00194 DATED NOV 19 2026

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

Columbia/Adair Utilities District

Wholesale Water Service	
Volumetric Charge per 1,000 Gallons	$4.59

East Casey County Water District

Wholesale Water Service	
Volumetric Charge per 1,000 Gallons	$4.59

Green-Taylor Water District

Wholesale Water Service	
Volumetric Charge per 1,000 Gallons	$4.36

Larue County Water District #1

Wholesale Water Service	
Volumetric Charge per 1,000 Gallons	$4.59

Marion County Water District

Wholesale Water Service	
Volumetric Charge per 1,000 Gallons	$4.59

Service List for Case 2026-00194

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* Denotes served by Email