

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**ELECTRONIC APPLICATION OF )  
WARREN COUNTY WATER DISTRICT ) CASE NO. 2024-00201  
FOR AN ADJUSTMENT OF RATES FOR )  
SEWER SERVICE )**

**BRIEF OF  
WARREN COUNTY WATER DISTRICT**

Pursuant to the Commission’s Order of March 6, 2025, Warren County Water District (“Warren District” or “the District”) submits this written brief in support of its Application for an adjustment of its rates for sewer service.

**I. STATEMENT OF THE CASE**

Warren County Water District (“Warren District” or “the District”), a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide sewer service to the public for compensation to portions of the City of Bowling Green, Kentucky, and to other areas of Warren County, Kentucky. It also owns and operates facilities that are used for the distribution and furnishing of water to the public for compensation in the same general area. Under the terms of a joint operations agreement, the District also manages and operates Butler County Water System, Inc. (“Butler Water”) and Simpson County Water District (“Simpson District”).

The District does not own or operate any sewage treatment facilities but collects and transports wastewater within its territory to the sewage treatment facilities of Bowling Green Municipal Utilities (“BGMU). As of the end of the proposed test period, December 31, 2023, Warren District provided retail sewer service to 10,241 customers in Warren County, Kentucky<sup>1</sup> and had collected 1.415 billion gallons of wastewater during the test period.<sup>2</sup>

On June 20, 2024, Warren County Water District (“Warren District” or “the District”) filed a Notice with the Kentucky Public Service Commission (“Commission”) in conformity with 807 KAR 5:001, Section 16(2), expressing its intention to file an application for an increase in rates on or about July 30, 2024. The Notice specifically provided that the application for an increase in rates would be supported by a historical test period. On the same day, the District submitted a Notice of Election of Use of Electronic Filing Procedures and the Commission’s Executive Director issued as an Acknowledgement Letter establishing an electronic docket for this proceeding and assigning it a case number.

Warren District filed its Application and supporting materials on July 31, 2024. In its Application, the District sought the Commission’s approval of an

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<sup>1</sup> *Annual Report of Warren County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2023* (“2023 Annual Sewer Report”) at 25.

<sup>2</sup> Application, Exhibit 18 at 1-2.

increase in its annual revenues of \$852,762 to become effective on August 31, 2024. In support of its proposed rates, the District included in its application the written verified testimony of Ross Guffey, a professional engineer with HDR Engineering, Inc.; Jacob Cuarta, Warren District's General Manager; and Jeff Peeples, Warren District's Manager of Finance and Administration.

Warren District submitted its Application to comply with the Commission's Orders of March 24, 2021 and March 15, 2024 in Case No. 2021-00007, and the Commission's Order of September 2, 2022 in Case No. 2022-00232 in which the Commission directed the District to apply for a general adjustment in base rates after expressing concern that the District had not filed a rate case since 2001.<sup>3</sup>

By letter dated August 6, 2024, the Commission's Executive Director advised the District its Application had been accepted for filing. On August 15, 2024, the Commission issued an order in which it suspended the District's proposed rates until January 31, 2025, established a procedural schedule in this proceeding, and directed that a hearing on the proposed rates be held beginning December 11, 2024.

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<sup>3</sup> See *Electronic Application of Warren County Water District to Issue Securities in the Approximate Principal Amount of \$3,735,000 for the Purpose of Refunding and Reamortizing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001*, Case No. 2021-00007, Order (Ky. PSC Mar. 24, 2021). The Commission originally ordered that an application for rate adjustment be filed by March 24, 2024, which the Commission reiterated in its September 2, 2022 Order in *Electronic Purchased Water Adjustment Filing of Warren County Water District* Case No. 2022-00232, Order (Ky. PSC Sept. 2, 2022). By its Order of March 15, 2024, in Case No. 2021-00007, the Commission extended the time period in which to file such application to July 31, 2024 and clarified that the Commission's Order applied to Warren's Sewer Division as well as its Water Division.

After the completion of four rounds of discovery by Commission Staff and in the absence of any intervening party in this proceeding, Warren District on November 14, 2024, moved the Commission to proceed in this matter without a hearing. The Commission granted this motion on November 21, 2024. Following the order granting this Motion, Commission Staff issued, and the District promptly responded to, an additional request for information. On December 30, 2024, the District filed with the Commission its Supplemental Statement of Adjusted Operations (“SAO”), which contained new adjustments to its operating expenses and to its principal and interest payments. (The District has discovered an additional adjustment previously brought to the Commission’s attention, but inadvertently omitted from the Supplemental SAO, and has appended to this Brief a revised version which includes the omitted adjustment and actual level of its rate case expense.)<sup>4</sup> As a result of these adjustments, the District revised its proposed increase in revenues from \$852,762 to \$771,358.<sup>5</sup> On March 6, 2025, the Commission

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<sup>4</sup> The omitted adjustment involved an error in calculating the District’s proposed adjustment to Salaries and Wages-Employees expense. The District informed the Commission of the error in its Response to Warren District’s Response to Commission Staff’s Third Request for Information, Item 3-4 and provided a revised amount for the proposed adjustment. See note 15 for further explanation of this revised adjustment. On March 28, 2025, the District submitted its final report on its rate case expense, which reflected the District’s total rate case expense as of March 27, 2025. See Warren District’s Seventh Supplemental Response to Commission Staff’s First Request for Information, Item 1-14d. **References in this Brief to “Supplemental SAO” are to the revised Supplemental SAO appended to this Brief.**

<sup>5</sup> This amount did not reflect the actual level of rate case expense that the District incurred and reported in its final rate case expense report or the omitted adjustment to Salaries and Wages-Employees expense.

ordered that the District may submit a written brief in this matter and that, as of April 1, 2025, this matter would stand submitted for decision.

## **II. ALLOCATION OF COSTS**

The revenues and expenses reported in the District's Application and Supplemental SAO accurately reflect the revenues and expenses for the District's sewer operations. They are a product of a rigorous, time tested, and thoroughly reviewed cost allocation method.

For the past twenty-five years, Warren District, Butler Water, and Simpson District have operated under a Joint Operations Agreement.<sup>6</sup> The Agreement's objective is to provide the customers of each utility with the best service possible at the most economical cost. Under the Agreement, each utility has its own board that sets that utility's policy, rules, and regulations and ensures the utility is operated in accordance with those policies, rules, and regulations. A Joint Utility Committee consisting of one member from each utility's board oversees the planning and operation of shared services.

Warren District is the lead utility. Its general manager serves as the general manager for the other two utilities. The District provides the employees, equipment, and services to operate all of the day-to-day business of each utility. It coordinates

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<sup>6</sup> For the most recent version of this Agreement, see Written Testimony of Jeff Peeples ("Peeples Testimony") at App. C.

and supervises each utility's operation and maintenance, provides engineering services to each utility, supervises contractors, provides the equipment and supplies for each utility, and maintains each utility's accounting and financial records. It also provides customer service for each utility.

All costs, such as materials, electricity, and other items incurred for a specific utility are charged directly to that utility system. Field employees perform work based upon work orders. Then, the employee records his or her time for performing this work. This labor expense is charged to the appropriate utility. For example, a repair crew's workday may include time worked in more than one utility system. When its work is reflected in the timecard system, the labor, truck, and backhoe time is charged to the appropriate utility system.

The allocation of shared costs, such as the labor expense for administrative employees who support the operations of all the utility systems, is determined annually and is based upon the prior year's total number of customers in all four utility systems<sup>7</sup> and each utility system's percentage of that total.<sup>8</sup> Each utility

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<sup>7</sup> The District's cost allocation methodology considers District's water and sewer operations as separate utilities.

<sup>8</sup> Some administrative employees are not allocated but charged directly to a utility system. For example, the labor costs associated with customer service representatives who work solely for a specific utility system are totally allocated to that utility system. Peeples Testimony at 7. Warren District has four customer service representatives who are totally assigned to Warren District. As these representatives address issues involving both water and sewer operations, their labor costs are totally assigned to the District but allocated between the District's water and sewer operations. *Id.* at 7-8.

system's portion is calculated by multiplying the actual shared costs by each utility system's corresponding percentage of customers. For calendar year 2024, this allocation was: Warren District Water Operations (64.1 percent); Warren District Sewer Operations (19.4 percent); Butler Water (9.6 percent); and Simpson District (6.9 percent).

The District allocates employee benefits costs, including paid time off and insurance; retirement; payroll taxes; and workers' compensation, by assigning these costs to "Employee Overhead" and calculating an "Employee Overhead Rate." The Employee Overhead Rate is applied to wages worked and allows Warren District to recover the cost of paid time off, medical insurance, workers' compensation, and payroll taxes. The Employee Overhead amount is charged to the District's sewer system by multiplying the wages worked by the Employee Overhead Rate.

The Commission and its Staff recently reviewed the assignment of costs under the Joint Operating Agreement in Cases No. 2024-00061<sup>9</sup> and No. 2024-00068.<sup>10</sup> The Commission accepted the results of those assignments and did not take issue with or note any concerns with the Joint Operating Agreement's methodology nor

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<sup>9</sup> *Electronic Application of Butler Water System, Inc. For A Rate Adjustment Pursuant to 807 KAR 5:076*, Case No. 2024-00068 (Ky. PSC Oct. 29, 2024); Commission Staff Report on Butler Water System, Inc. (filed Aug. 28, 2024 in Case No. 2024-00061).

<sup>10</sup> *Electronic Application of Simpson County Water District For A Rate Adjustment Pursuant to 807 KAR 5:076*, Case No. 2024-00061 (Ky. PSC Nov. 1, 2024); Commission Staff Report on Simpson County Water District (filed Sep. 5, 2024 in Case No. 2024-00068).

did the Commission suggest modifications or revisions to the methodology were needed.

### **III. PROPOSED ADJUSTMENTS TO TEST PERIOD OPERATIONS**

In its Application, the District proposed a total revenue requirement for its sewer operations of \$7,533,181 and a revenue requirement from sewer collection sales of \$6,997,018, requiring an increase in revenues from sewer collection sales of \$852,762.<sup>11</sup> This requirement was determined using the District’s actual operations for the calendar year 2023 (“test period”), the most recent full calendar year for which complete financial information was available, and adjusted to reflect certain known and measurable changes that occurred either during or after the end of the test period.<sup>12</sup> In its Supplemental SAO, the District has made additional adjustments to test period expense and to principal and interest expense that **reduce** the District’s total revenue requirement to **\$7,454,846** and its revenue requirement from sewer sales to **\$6,918,683**.<sup>13</sup>

In its Application and its Supplemental SAO, the District proposed no adjustments to its test period operating revenues of \$6,680,415, but proposed adjustments to several operating expenses that resulted in an increase of \$378,265 to test period operating expenses of \$6,345,247. The operating expenses adjusted

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<sup>11</sup> Application, Exhibit 7.

<sup>12</sup> Peeples Testimony at 9.

<sup>13</sup> Appendix at 2.



were: Salaries and Wages-Employees, Employee Overhead, Contractual Services-Legal, Contractual Services-Other, Depreciation, and Taxes Other than Income. A review of the evidentiary record demonstrates that the District's proposed adjustments are reasonable and should be accepted.

#### **A. Salary and Wages - Employees**

In the test period, the District's Sewer Operations incurred Salary and Wages – Employees expense of \$317,554. The District proposes to **increase** this expense by **\$83,920** to reflect the addition of six employees, three of whom were hired during the test period and three of whom were hired on or before June 10, 2024<sup>14</sup> and the assignment of all Customer Service Representative (“CSR”) wages to Salary and Wages – Employees expense.<sup>15</sup>

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<sup>14</sup> Written Testimony of Jacob Cuarta (“Cuarta Testimony”) at 9-12. For a table containing a description of each position, the date on which the position was authorized, the date on which it was filled and its purpose, see Appendix E to Cuarta Testimony. The proposed adjustment reflects the amount of labor hours to be incurred by the employees in support of the District's sewer operations only. The District added additional eight employees during this period. However, one of these employees – a GIS Analyst – devotes his time to capital projects. His salary and fringe benefits are charged to the appropriate capital project rather than being charged as an operating expense. Cuarta Testimony at 12. The other employee – a lead meter technician – devotes his time entirely to the District's water division.

<sup>15</sup> Warren District's Response to Commission Staff's Third Request for Information, Item 3-4. Approximately \$39,323 of the proposed adjustment of \$83,920 adjustment is related to the reassignment of CSR wages. The remaining \$44,597 is related to the addition of the seven employee positions. For the calculation of this adjustment, see Warren District's Response to Commission Staff's Third Request for Information, Excel File 03\_Exhibit\_3-1.xlsx, Tab New Employees and Tab CSRs. (In preparing its response, the District discovered an error in its calculation of the cost for the new employee positions which reduced the total adjustment amount from \$85,369 to \$83,920.)

Mr. Cuarta in his written testimony stated that, due to the rapid customer growth, the new positions were necessary to enable the District to continue to provide adequate and reliable water and sewer service.<sup>16</sup> This proposed adjustment to reflect the wages of these recently hired employees is consistent with recent Commission precedent permitting adjustments to test period expense to reflect a utility's current employee levels as of the date of the utility's application for rate adjustment.<sup>17</sup>

As to the reassignment of all CSR wages to Salary and Wages – Employees expense, during the test period approximately 60 percent of the CSR's wages were assigned to expense and the remaining 40 percent were assigned to capital. In September 2023, however, the District implemented an asset management software that allowed the District to shift several capital-related CSR tasks, such as creating and processing work orders related to new meter installations, fire hydrant installations, and line extensions, to the District's operations and construction groups. As a result, the CSR group's role transitioned to one focused solely on

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<sup>16</sup> Cuarta Testimony at 9-10.

<sup>17</sup> See, e.g., Case No. 2024-00061, Order of Nov. 1, 2024 at 11-12; Case No. 2024-0068, Order of Oct. 29, 2024 at 11-12; *Electronic Application of Cawood Water District For An Alternative Rate Adjustment*, Case No. 2020-00311(Ky. PSC Apr. 8, 2021), Order at 7 (costs associated with employee hired after end of test period are “known and measurable and reasonable for ratemaking purposes”).

customer inquiries.<sup>18</sup> The Commission has previously addressed this proposed reassignment of CSR wages during its review of the recent rate adjustment applications of Butler Water and Simpson District and allowed adjustments to test period Salary and Wages – Employees expense to reflect this reassignment.<sup>19</sup>

The District further proposes to increase test period Salary and Wages – Employees expense to reflect wage increases effective on January 1, 2024. On November 29, 2023, the District’s Board of Commissioners approved a Cost-of-Living Adjustment (“COLA”) of 3.241 percent to take effect on January 1, 2024 for all District employees.<sup>20</sup> Application of the COLA results in an **increase** in Salary and Wages – Employees of **\$10,292**.<sup>21</sup> At the same meeting, the District’s Board authorized merit increases equal to two percent of the test period Salary and Wages – Employees expense to be awarded based upon an employee’s individual performance. The merit salary **increases** that expense by **\$6,351**.<sup>22</sup> Both adjustments are reasonable and consistent with Commission precedent.

The District’s Operating Policy requires annual cost-of-living adjustments based upon changes in the Consumer Price Index for Urban Consumers (“CPI-U”)

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<sup>18</sup> Warren District’s Response to Commission Staff’s Third Request for Information, Item 3-4a. For the calculation of this adjustment, see Warren District’s Response to Commission Staff’s Third Request for Information, Excel File 03\_Exhibit\_3-1.xlsx, Tab CSRs.

<sup>19</sup> Case No. 2024-00061, Order of Nov. 1, 2024 at 11-12; Case No. 2024-0068, Order of Oct. 29, 2024 at 11-12.

<sup>20</sup> Application, Exhibit 7 at 3, Reference A.

<sup>21</sup>  $\$317,554 \times 0.03241 = \$10,292$ .

<sup>22</sup>  $\$317,554 \times 0.02 = \$6,351$ .

for the 12-month period ending October 31.<sup>23</sup> The COLA provided to District employees reflected the increase in consumer prices according to the CPI-U for the 12-month period ending October 31, 2023.<sup>24</sup> The use of the CPI-U to adjust salaries and wages for inflation is a common practice among businesses and is consistent with the Commission’s statements that utilities should use a “relevant inflation index” to adjust wages and salaries for the effects of inflation.<sup>25</sup>

As to the merit increases, the Commission has found that merit-based salary and wage increases are reasonable when based upon “a performance based metric.”<sup>26</sup> The wage and salary increases at issue are performance driven. The District’s Employee Handbook provides:

All employees shall have a performance evaluation annually. Merit increases in compensation will normally range from 0 – 4% and will be based on employee performance provided the employee’s compensation has not exceeded the position pay range. All salary increases must be approved by the General Manager.<sup>27</sup>

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<sup>23</sup> See Warren County Water District’s Response to Commission Staff’s First Request for Information, Attachment 1-28a, at 5-6 (Warren County Water District Operating Policy No. 111).

<sup>24</sup> See Bureau of Labor Statistics, Economic News Release, “Consumer Price Index - October 2023” (Nov. 14, 2023), available at [https://www.bls.gov/news.release/archives/cpi\\_11142023.htm](https://www.bls.gov/news.release/archives/cpi_11142023.htm) (last visited Mar. 23, 2025).

<sup>25</sup> See, e.g., *Electronic Application of Monroe County Water District For A Rate Adjustment Pursuant to 807 KAR 5:076*, Case No. 2017-00070 (Ky. PSC Jan. 12, 2028), Order at 16.

<sup>26</sup> *Electronic Application of Northern Kentucky Water District For An Adjustment of Rates; Issuance of Bonds; Financing; and Tariff Revisions*, Case No. 2018-00291 (Ky. PSC Mar. 26, 2019) Order at 7.

<sup>27</sup> *Supra* note 23 at 5.

Each department manager is responsible for evaluating his employees' job performance and determining appropriate merit increases, if any, based on established performance criteria. No employee is guaranteed a merit increase. The Commission has previously addressed the District's merit pay increases during its review of the recent rate adjustment applications of Butler Water and Simpson District and allowed similar adjustments to test period Salary and Wages – Employees expense to reflect the award of merit pay increases.<sup>28</sup>

## **B. Employee Overhead**

The District allocates Employee Overhead to five categories: payroll taxes; wages in the form of accrued paid time off; worker's compensation insurance; fringe benefits (e.g., health insurance, life insurance); and retirement.

Payroll Tax. The District proposes to **decrease** Employee Overhead by **\$27,368** to reflect the reassignment of test period payroll taxes as Taxes Other than Income.<sup>29</sup> Under the Commission's Uniform System of Accounts for Water Districts, payroll taxes are classified as taxes other than income.<sup>30</sup> The District recognizes that its prior assignment of payroll taxes is incorrect and now seeks to become consistent with the Commission's Uniform System of Accounts.

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<sup>28</sup> Case No. 2024-00061, Order of Nov. 1, 2024 at 11-12; Case No. 2024-0068, Order of Oct. 29, 2024 at 11-12.

<sup>29</sup> Application, Exhibit 7, References B and H.

<sup>30</sup> Uniform System of Accounts for Class A/B Water Districts (Ky. PSC 2002) at 83. The Commission has approved such adjustments in recent proceedings. *See, e.g.*, Case No. 2024-00061, Order of Nov. 1, 2024 at 12-13; Case No. 2024-0068, Order of Oct. 29, 2024 at 12-13.

Other Components. During the test period, the District incurred costs for various employee benefits. These included paid annual leave, sick leave, holidays, and personal holidays, health and life insurance, retirement benefits, and workers compensation insurance. In his testimony, the District's Manager of Finance and Administration, explains how these costs are allocated between the District's operations, Butler Water, and Simpson District.<sup>31</sup> The District has proposed to **increase** these expenses by **\$39,998** to reflect the additional cost of these benefits due to the creation of six employee positions in 2023 and 2024 and the assignment of the total cost of CSR benefits as an expense.<sup>32</sup> The District has provided detailed calculations that show how the proposed adjustment was derived.<sup>33</sup> As these employee benefits are tied to the level of employee salaries and wages, the District has further proposed to adjust Employee Overhead to reflect the increase in employee salaries and wages due to the COLA and merit pay increases that took effect on January 1, 2024.

Employee Health Insurance. The District proposes a pro forma insurance expense that reflects the District's contribution of 70 percent of the cost of an employee's health insurance coverage. This contribution rate slightly exceeds

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<sup>31</sup> Peeples Testimony at 5-7.

<sup>32</sup> Warren District's Response to Commission Staff's Third Request for Information, Item 3-4.

<sup>33</sup> Warren District's Response to Commission Staff's Third Request for Information, Excel File 04\_Exhibit\_3-4b, Tab New Employees and Tab CSR Wages.

national average for private sector employers as found by the most recent survey of United States Bureau of Labor Statistics (“BLS”). That survey found the average private sector employer contribution rate of 80 percent for single employee coverage and 68 percent for family coverage.<sup>34</sup> To the extent that the District’s contribution may slightly exceed the reported national average, no disallowance of the proforma expense is required.

The District’s contribution rate is reasonable and appropriate. The District’s policy of contributing 70 percent of the cost of an employee’s health insurance cost has been in effect for 25 years and strikes a balance between providing comprehensive employee benefits while managing operational costs effectively. It ensures that the District can allocate resources across various operational needs while still offering competitive benefits to attract and retain competent and qualified employees. It has and continues to ensure affordability and predictability for the District and District employees.

The District’s use of a 70 percent employer contribution rate aligns with or exceeds typical private sector norms reported by the BLS. BLS surveys have shown that employers in the private sector often cover a significant portion of health insurance costs, although specific percentages can vary widely by industry and

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<sup>34</sup> U.S. Bureau of Labor Statistics, News Release, Employee Benefits in the United States – March 2024 (Sep. 19, 2024) at 1.

region. Since the BLS average employer contribution fluctuates; it would not be reasonable for the District to adjust its contribution rate each year to ensure exact conformity with a national average. The District must plan and budget its resources. Its employees must do the same and they value consistency.

Furthermore, the District's employee contribution rates fall within the safe harbor rule that the Commission established in Case No. 2019-00053.<sup>35</sup> In that proceeding, the Commission held that "as long as the employee contribution rate for health insurance is at least 12 percent, it [the Commission] will not make a further adjustment to the national average."<sup>36</sup> The Commission has affirmed this rule on several occasions.<sup>37</sup> The District's required employee contribution rate for both single and family coverages well exceeds the 12 percent rate set forth in the Commission's safe harbor rule and therefore should be accepted without adjustment.

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<sup>35</sup> *Electronic Application of Jackson Purchase Energy Corporation For A General Adjustment In Existing Rates*, Case No. 2019-00053 (Ky. PSC June 20, 2019).

<sup>36</sup> *Id.*, Order at 9.

<sup>37</sup> *See, e.g., Electronic Application of Northern Kentucky Water District For An Adjustment of Rates; Issuance of Bonds; Financing; and Tariff Revisions*, Case No. 2022-00161 (Ky. PSC Mar. 16, 2023) at 5-6; *Electronic Application of Oldham County Water District For An Alternative Rate Adjustment*, Case No. 2023-00252 (Ky. PSC June 18, 2024) Order at 16; *Electronic Application of Madison County Water Utilities District For An Alternative Rate Adjustment*, Case No. 2021-00218 (Ky. PSC June 18, 2024) (adopting Commission Staff recommendation that no disallowance required because utility required employee contribution rate of 16.43 percent); *Electronic Application of Big Sandy Water District For An Adjustment of Its Water Rates Pursuant To 807 KAR 5:076*, Case No. 2022-00044 (Ky. PSC Sep.13, 2022) (adopting Commission Staff recommendation that no disallowance required because utility required employee contribution rate of 12 percent).



### **C. Contractual Services – Legal**

In its Supplemental SAO, the District proposes to increase test period Contractual Services – Legal expense of \$5,136 by **\$108** to **\$5,244** to reflect a test period expense incorrectly recorded.<sup>38</sup> The District advised the Commission of these errors in its Response to Commission Staff’s Second Request for Information, Item No. 4.

### **D. Contractual Services - Other**

In its Supplemental SAO, the District proposes to **decrease** test period Contractual Services – Other expense of \$226,768 by **\$108** to remove an expense improperly assigned to Contractual Services – Other and to reassign that expense to Contractual Services – Legal.<sup>39</sup>

### **E. Depreciation Expense**

The District reported test period Depreciation Expense of \$1,918,276 for its sewer operations.<sup>40</sup> The District has since 2022 used the mid-point of the service life range set forth in the National Association of Regulatory Commissioners’ *Depreciation Practices for Small Water Utilities* (“NARUC Study”) to determine the

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<sup>38</sup> Notice of Filing of Supplement to Application Exhibit 7 at 1-2.

<sup>39</sup> See Notice of Filing of Supplement to Application Exhibit 7 at 1-2; Warren District’s Response to Commission Staff’s Second Request for Information, Item 2-4.

<sup>40</sup> See Application, Exhibits 7 and 14. The test period depreciation expense reported in Exhibits 7 and 14 of the Application were not in agreement. For a reconciliation of the depreciation expense level found in these exhibits, see Warren District’s Response to Commission Staff’s Second Request for Information, Item 2-5.

depreciation rates for its assets and determined that no adjustments to test period Depreciation Expense were necessary to achieve consistency with current Commission ratemaking practices.<sup>41</sup>

In its Application, the District proposed adjustments to test-period Depreciation Expense to increase that expense by \$245,339 to reflect various projects that were completed and placed into service after the end of the test period or which were expected to be completed in 2024.<sup>42</sup> In its Supplemental SAO, the District has **reduced** the proposed adjustment to Depreciation Expense to **\$223,108** to reflect the current status of those projects. These proposed adjustments to reflect post-test period projects are consistent with recent Commission decisions on similar adjustments.<sup>43</sup>

The proposed adjustments involve the following projects:

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<sup>41</sup> Peeples Testimony at 13-14.

<sup>42</sup> Application, Exhibit 7, References E -I.

<sup>43</sup> See Case No. 2024-00068, Order of Oct. 29, 2024 at 24-25 (accepting Commission Staff recommendation for “inclusion of post-test year additions since the proposed rates should be sufficient to recover the cost for depreciation of these assets on a going forward basis”); Case No. 2024-00061, Order of Nov. 1, 2024 at 22-23 (accepting Commission Staff recommendation for “inclusion of post-test year additions since the proposed rates should be sufficient to recover the cost for depreciation of these assets on a going forward basis”). For Commission proceeding in which the Commission followed Commission Staff recommendations to allow post-test period plant additions, see, e.g., *Application of Henderson County Water District for An Alternative Rate Filing*, Case No. 2013-00154, (Ky. PSC Nov. 14, 2013); *Alternative Rate Adjustment Filing of Farmdale Water District*, Case No. 2013-00485 (Ky. PSC July 23, 2014); *Alternative Rate Adjustment Filing of South Hopkins Water District*, Case No. 2013-00428 (Ky. PSC June 12, 2014).

Developments – Structures, Mains and Laterals. The District proposes to **increase** test period Depreciation Expense by **\$100,494** (\$7,433 for structures, \$55,216 for mains, and \$37,845 for laterals) to reflect depreciation expense on facilities constructed by real estate subdivision developers and donated to the District between August 2024 and May 2024.<sup>44</sup> All these facilities had been placed in service as of May 2024.<sup>45</sup> Kentucky law permits a water district to recover through its rates the depreciation expense on such donated facilities.<sup>46</sup>

SCADA Upgrade. In its application, the District proposed to **increase** test period Depreciation Expense by **\$122,614** to recover 100 percent of the annual depreciation expense associated with the completion of a project to upgrade its supervisory control and data acquisition (“SCADA”) system for its sewer operations.<sup>47</sup> The SCADA upgrade for the District’s sewer operations was completed on September 30, 2024 and has been placed into service.<sup>48</sup>

CIS Infinity Upgrade. In its Application, the District proposed to increase test period Depreciation Expense by \$22,230 to reflect an upgrade to its billing system

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<sup>44</sup> *Id.*, Exhibit 7, Reference E. A complete listing of these hydrants and mains and a calculation of annual depreciation expense is found at Warren District’s Response to Commission Staff’s Second Request for Information, Excel File 04\_Exhibit 2-1\_Known\_and\_Measurables.xlsx, Tab Developments-S.

<sup>45</sup> Warren District’s Response to Commission Staff’s Fourth Request for Information, Item 4-2.

<sup>46</sup> *Public Service Commission of Kentucky v. Dewitt Water District*, Ky., 720 S.W.2d 725 (1987).

<sup>47</sup> Application, Exhibit 7, Reference F.

<sup>48</sup> Warren District’s Response to Commission Staff’s Fifth Request for Information, Item 5-2a.

expected to be completed in 2024.<sup>49</sup> Because of delays on the part of the system vendor, the system upgrade did not begin until February 2025 and is not expected to be completed until February 2026.<sup>50</sup> The projected depreciation expense associated with this project should be **removed** from the District's revenue requirement.

#### **F. Taxes Other than Income**

During the test period, the District reported no Taxes Other than Income Expense. It proposed to **increase** this expense by **\$34,557**.<sup>51</sup> Approximately \$27,368 of the proposed adjustment is related to the reassignment of test period payroll taxes from Employee Overhead Expense to Taxes Other than Income Expense. The remaining \$7,189 reflects the annual payroll taxes incurred as a result of the creation of new employee positions in 2023 and 2024 and the assignment of the total cost of CSR benefits as an expense.<sup>52</sup>

#### **G. Rate Case Expense**

In its Application, the District estimated rate case expenses, including legal fees, engineering service (rate consultant) fees and public notice publications, of \$131,172. It proposed that the District's authorized revenue requirement be increased by \$43,724 to permit the District's recovery of these expenses through

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<sup>49</sup> Application, Exhibit 7, Reference G.

<sup>50</sup> Warren District's Response to Commission Staff's Fifth Request for Information, Item 5-2b; Notice of Filing of Supplement to Application Exhibit 7 at 2-3.

<sup>51</sup> Application, Exhibit 7, References B and H.

<sup>52</sup> Warren District's Response to Commission Staff's Third Request for Information, Excel File 04\_Exhibit 3-4b.xlsx, Tab New Employees and Tab CSR Wages.

rates over a three-year period.<sup>53</sup> The use of a three-year amortization period is consistent with Commission precedent.<sup>54</sup> During this proceeding, the District has submitted monthly reports, supported by detailed invoices, on its rate case expense.<sup>55</sup> Based upon its final report,<sup>56</sup> which reflects total rate case expense of \$144,726, the District requests that annual recovery of **\$48,242**<sup>57</sup> be permitted through the District's authorized rates.

#### **IV. REVENUE REQUIREMENT DETERMINATION**

In its Supplemental SAO, Warren District has recalculated its revenue requirements to reflect revisions to its proposed adjustments to test period expenses and to correct recently discovered errors in the calculation of its debt service requirements.

Using the average of its annual principal and interest payments on its outstanding debt instruments for the years 2024 through 2026, the District in its Application calculated its annual debt service requirement for ratemaking purposes

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<sup>53</sup> Application, Exhibit 7, Reference K.

<sup>54</sup> See, e.g., *Electronic Application of Morgan County Water District For A Rate Adjustment Pursuant to 807 KAR 5:076*, Case No. 2024-00010 (Ky. PSC Oct. 25, 2024) at 18 (“It is Commission precedent to amortize the cost of the rate case expense over three years in the absence of a different, reasonable period requested by a utility”).

<sup>55</sup> These reports have been submitted in response to Commission Staff's First Request for Information, Item 1-14d.

<sup>56</sup> Warren District's Seventh Supplemental Response to Commission Staff's First Request for Information, Item 1-14d.

<sup>57</sup>  $\$144,726 \div 3 \text{ years} = \$48,242 \text{ per year.}$

as \$618,554.<sup>58</sup> The District recently discovered an error in its calculations and advised the Commission that the correct amount was \$5,854,934.<sup>59</sup> The revised calculations are set forth in Table 1, which shows the annual principal and interest payments for each of the District’s outstanding debt instruments. The significant increase is attributable largely to the high principal amounts associated with the Series 2022D Loan and the Series 2024D Loan from the Rural Water Financing Agency (“RWFA”).

<b>Table 1<sup>60</sup></b>			
<b>Debt Instrument</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
KIA Loan C11-02	\$ 55,699	\$ 55,615	\$ 55,527
KRWFC 2013B	\$ 11,321	\$ 11,017	\$ 9,733
RD Series 2019	\$ 22,701	\$ 22,511	\$ 22,815
KIA Loan B19-006	\$ 125,276	\$ 125,100	\$124,921
RWFA Series 2021A	\$ 137,544	\$ 133,082	\$ 99,256
RWFA Series 2022D	\$8,043,757	\$ 0	\$ 0
RWFA Series 2024D	\$ 0	\$8,508,926	\$ 0
<b>Total Principal and Interest Payment</b>	<b>\$8,396,298</b>	<b>\$8,856,251</b>	<b>\$312,252</b>

Because the two loans involve short-term debt instruments and their principal payments have a significant impact upon the District’s revenue requirement, the District has proposed to **exclude** from the revenue requirements calculation the principal payments associated with the Series 2022D Loan (\$7,754,620) and the

<sup>58</sup> Application, Exhibit 7, Reference K.

<sup>59</sup> Notice of Filing of Supplement to Application Exhibit 7 at 3-4.

<sup>60</sup> See Warren District’s Response to Commission Staff’s Second Request for Information, Excel File 05\_Exhibit\_2-3a\_Debt\_Schedule.xlsx. The principal and interest amount also includes annual administrative fees assessed by the lending agency.

Series 2024D Loan (\$8,102,453).<sup>61</sup> As shown in Table 2, this action will reduce the debt service component of the revenue requirements determination from \$5,854,933 to **\$569,243** and provides for a reasonable, known and measurable amount for ratemaking purposes. The revised Principal and Interest Payments amount **results in a decrease of \$49,311** from the amount that the District proposed in its Application.

<b>Table 2</b>	
<b>Year</b>	<b>Recalculated Annual Principal and Interest Payment</b>
2024	\$ 641,678
2025	\$ 753,798
2026	\$ 312,253
<b>Average</b>	<b>\$ 569,243</b>

As the Additional Working Capital component of the revenue requirements calculation is based upon the debt service coverage provisions of a water district's debt instruments, the proposed revision to Principal and Interest Payments amount will also be affected. The District's long term debt instruments require the District to maintain a debt service coverage of 20 percent of the District's principal and interest payments. Applying this debt service coverage amount to the revised

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<sup>61</sup> Notice of Filing of Supplement to Application Exhibit 7 at 3-4.

Principal and Interest Payments amount produces an Additional Working Capital amount of **\$113,849**.<sup>62</sup>

As shown in the revenue requirements calculation set forth in the Supplemental SAO, the proposed adjustments to test period expenses set forth in the Application, as modified and supplemented by the Supplemental SAO, and the revised Principal and Interest Payments amount produce a total revenue requirement of **\$7,454,846** and a revenue requirement from sewer sales to **\$6,918,683** and support an adjustment in the District's existing rates for sewer service to generate **additional revenues of \$774,427**.

## V. CONCLUSION

The District has satisfied its burden to demonstrate that its proposed rates are fair, just, and reasonable through the record of evidence in this proceeding. To aid in the Commission's review of the District's proposed revenue increase, a copy of the District's Supplemental Statement of Adjustment Operations, which compares the District's initial pro forma calculations and its final proposed adjustments to the various components of the revenue requirement calculation, is appended to this Brief. Warren County Water District respectfully requests that the Commission enter

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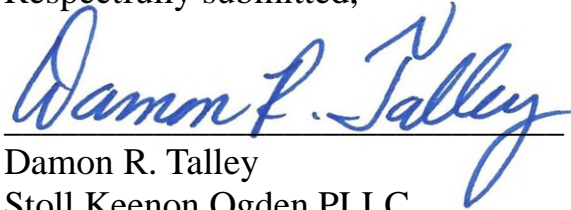
<sup>62</sup>  $\$569,243$  (Revised Principal and Interest Payments) x 0.20 (Debt Service Coverage Requirement) =  $\$113,849$ .



an order approving rates to reflect a revenue increase of \$774,427 and granting all other relief to which the District may be entitled.

Dated: March 31, 2025

Respectfully submitted,



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### **CERTIFICATE OF SERVICE**

In accordance with 807 KAR 5:001, Section 8, and the Commission's Order of July 22, 2021 in Case No. 2020-00085, I certify that this document was submitted electronically to the Public Service Commission on March 31, 2025, and that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding.



Damon R. Talley

# **Appendix**

**Supplemental Statement of Adjusted Operations  
Revised 03/31/2025**

Supplemental Statement of Adjusted Operations  
Warren County Water District Sewer Division  
(Revised 03/31/2025)

	Test Year	Initial Proposed Adjustments	Revised Proposed Adjustments	DR Ref.	Initial Pro Forma	Revised Pro Forma
<b>Operating Revenues</b>						
Metered Sewer Revenues	6,144,256				6,144,256	6,144,256
Other Sewer Revenues						
Forfeited Discounts	84,207				84,207	84,207
Interest Income	432,358				432,358	432,358
Misc. Service Revenues	33,870				33,870	33,870
Other Sewer Revenues	(14,276)				(14,276)	(14,276)
<b>Total Operating Revenues</b>	<b>\$ 6,680,415</b>				<b>\$ 6,680,415</b>	<b>\$ 6,680,415</b>
<b>Operating Expenses</b>						
Operation and Maintenance (O&M)						
Salaries and Wages – Employees	317,554	102,012	100,563	3-4	419,566	418,117
COLA		10,292	10,292			
Merit		6,351	6,351			
New Employees		85,369	83,920	3-4		
Commissioner Fees	15,000				15,000	15,000
Employee Overhead						
Payroll Taxes	27,368	(27,368)	(27,368)		0	0
Wages	48,522	12,746	12,746		61,268	61,268
Worker’s Comp	1,779	467	467		2,246	2,246
Fringe Benefits – Insurance	38,385	10,083	10,083		48,468	48,468
Retirement	63,585	16,702	16,702		80,287	80,287
COLA		4,578	4,578		4,578	4,578
Merit		2,825	2,825		2,825	2,825
Sewage Disposal	3,374,015				3,374,015	3,374,015
Purchased Power	157,890				157,890	157,890
Materials and Supplies	59,604				59,604	59,604
Contractual Services – Accounting	14,000				14,000	14,000
Contractual Services – Legal	5,136	0	108	2-4	5,136	5,244
Contractual Services – Other	226,678	0	(108)	2-4	226,678	226,570
Rental of Building/Real Prop.	0				0	0
Equipment Expenses	37,620				37,620	37,620
Insurance – Gen. Liability	15,774				15,774	15,774
Insurance – Other	2,545				2,545	2,545
Regulatory Expense	8,006				8,006	8,006
Bad Debt	4,466				4,466	4,466
Miscellaneous Expenses	17,777				17,777	17,777
Chemicals	30,983				30,983	30,983
Misc Non-Utility Income	(4)	4	4		0	0
Unrealized (Gain)/Loss on Investment	(39,712)				(39,712)	(39,712)
Total O&M Expenses	<b>4,426,971</b>	<b>122,049</b>	<b>120,600</b>		<b>4,549,020</b>	<b>4,547,571</b>
Depreciation Expense	<b>1,918,276</b>	<b>245,339</b>	<b>223,108</b>		<b>2,163,615</b>	<b>2,141,384</b>
Developments – Structures		7,433	7,433			
Developments – Mains		55,216	55,216			
Development – Laterals		37,845	37,845			
SCADA Upgrade		122,614	122,614			
CIS Infinity Upgrade		22,230	0	5-2b		
Taxes Other than Income	<b>0</b>	<b>34,557</b>	<b>34,557</b>		<b>34,557</b>	<b>34,557</b>
<b>Total Operating Expenses</b>	<b>\$ 6,345,247</b>	<b>401,946</b>	<b>378,265</b>		<b>\$ 6,747,193</b>	<b>\$ 6,723,512</b>
<b>Net Utility Operating Income</b>	<b>\$ 335,168</b>	<b>(401,946)</b>	<b>(378,265)</b>		<b>\$ (66,778)</b>	<b>\$ (43,097)</b>

Supplemental Statement of Adjusted Operations  
Warren County Water District Sewer Division  
(Revised 03/31/2025)

	Test Year	Initial Proposed Adjustments	Revised Proposed Adjustments	DR Ref.	Initial Pro Forma	Revised Pro Forma
<b>REVENUE REQUIREMENTS</b>						
Pro Forma Operating Expenses					6,747,193	6,723,512
Add: Principal & Interest Payments			(49,311)	2-3a	618,554	569,243
Debt Service Coverage (Additional Working Capital)			(9,862)	2-3a	123,711	113,849
Rate Case Expense		43,724	48,242		43,724	48,242
<b>Total Revenue Requirement</b>					<b>\$ 7,533,181</b>	<b>\$ 7,454,846</b>
Subtract: Other Operating Revenues					(103,801)	(103,801)
Interest Income					(432,358)	(432,358)
Nonutility Income					(4)	(4)
<b>Revenue Required from Sewer Sales</b>					<b>\$ 6,997,018</b>	<b>\$ 6,918,683</b>
Revenue from Sales at Present Rates					(6,144,256)	(6,144,256)
<b>Required Revenue Increase</b>					<b>\$ 852,762</b>	<b>\$ 774,427</b>
<b>Required Revenue Increase as a Percentage of Revenue at Present Rates</b>					<b>13.88%</b>	<b>12.60%</b>