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July 9, 2025

Mayor Albert Jackson
103 W. Main Street
Earlington, KY 42410

Mayor Jimmy Epley
P.O. Box 337 30 Sunset Road
Hanson, KY 42413

Re: Second Preliminary Report

Dear Mayors,

This second preliminary report is to update you and Mr. Thomas regarding the status of my ongoing work since my March 18, 2025, Preliminary Report. As background, I want to clarify the following:

There are two types of utility rate studies. These are: 1) across-the-board rate increase utility rate studies and 2) Non-across-the-board rate increase rate studies.

For Cities and Towns and Villages, the across-the-board rate increase rate studies use a revenue requirement approach. This approach is used in all 50 states.

For non-across-the-board rate increase rate studies, an additional report is required. This is called a cost-of-service study. A cost-of-service study determines the cost of serving each customer class and develops a separate rate increase for each customer class. A wholesale customer is a type of a separate customer class.

There are 2 sources of guidance for preparing a cost-of-service study in wide use by experts in cost-of-service study preparation throughout the United States. These are:

1. The American Waterworks Manual M-1, and
2. The Water Environment Federation Financing and Charges for Wastewater Systems

These 2 manuals are the predominant guidance used in the preparation of cost-of-service studies (COS studies) for water and wastewater utilities throughout the United States and by virtually all State Public Service Commissions.

Manual M-1 is used for both water and wastewater utilities.
The WEF manual is used only for wastewater utilities.

When I was first engaged by Hanson and Earlington to review their wholesale customer rate increases (beginning in 2024), to determine whether these increases were fairly and reasonably calculated in accordance with industry standards - I requested a copy of the Madisonville rate study that calculated these new rates - expecting to receive a rate study supporting the substantial increases that followed one or both of these guidances.

To date, and to my surprise, I have not received a rate study or a COS study on behalf of Madisonville that even attempts to follow this standard protocol for guidance and validity.

It is therefore my opinion that there was no acceptable rate analysis prepared by or on behalf of the City of Madisonville to support the 2024 wholesale rate increase. As you know, I have concluded it would be necessary for me to recreate the correct 2024 wholesale rate on the basis of Madisonville's own records.

I then had Mr. Thomas request the necessary financial records from Madisonville. I recently was provided in response to the Request for Production of Documents. Unfortunately, Madisonville has provided only combined water and wastewater financial records, not wastewater only records. It is important to get sewage only financial data so no cross-subsidation between water and sewer is included in the final rates.

Again, the rate studies for water and sewer have to now be recreated which requires using separate water and wastewater financial data to avoid have cross subsidies between costs incurred for water and wastewater. There are still documents needed from Madisonville for my forensic identification of the wholesale wastewater rates in a similar manner that Mr. Kington's records reflect were undertaken in 2018. I have requested Mr. Thomas to ask for these additional financial records.

It is my intent to complete the forensic recreation of the accounting to establish the January 2024 wholesale rate for each city's percentage of its wastewater treated by Madisonville, after receipt of additional documents I have requested Mr. Thomas obtain for me from Madisonville. I do not anticipate that the underlying costs for wholesale rates in 2024 have increased substantially since 2018, but only my final report can determine the actual amount of increase needed.

Sincerely,

/s/ Steven K. Brock

Mr. Steven K. Brock, M.B.A., C.P.A.
THERBER, BROCK & ASSOCIATES, LLP

cc: Mr. Daniel Thomas, Esq.