

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BREATHITT)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2022-00136
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

This matter arises upon Breathitt County Water District's (Breathitt District) September 12, 2025, renewed motion for waiver of implementation of the Phase three rates previously ordered by the Commission in the final Order issued on January 31, 2024.

BACKGROUND

On January 31, 2024, the Commission issued its final Order in the above-styled case.¹ In the final Order, the Commission ordered a 54.07 percent increase in revenue from water sales to be phased-in evenly over a three year period.² Phase one rates consisted of an 18.04 percent increase effective on and after January 31, 2024.³ Phase two rates became effective on January 31, 2025, and increased rates by 15.30 percent.⁴ Phase three rates are scheduled to become effective on January 31, 2026, and would

¹ Order (Ky. PSC Jan. 31, 2024).

² Jan. 31, 2024 Order at 32.

³ Jan. 31, 2024 Order, Appendix B.

⁴ Jan. 31, 2024 Order, Appendix B.

consist of a 13.23 percent increase.⁵ On March 20, 2025, Breathitt District filed a motion for waiver of implementation of the Phase three rates.⁶ On April 17, 2025, the Commission entered an Order denying Breathitt District's motion due to insufficient evidence, including updated information on its financial condition and its 2024 Annual Report, to support the motion.⁷ Additionally, Breathitt District has filed a purchase water adjustment (PWA) in each of the past five years.⁸

MOTION

On September 12, 2025, Breathitt District filed a renewed motion to waive implementation of Phase three rates.⁹ Breathitt District stated that the county just experienced its second catastrophic flood in a little over two years.¹⁰ Breathitt District further stated that the flooding has left many residents with destroyed or damaged homes and water systems.¹¹ Breathitt District argued that the implementation of the Phase three rate increases would have a significant, negative impact on the customers during this time.¹² Breathitt District further stated that audited financial statements for the year ended

⁵ Jan. 31, 2024 Order, Appendix B.

⁶ Breathitt District's Motion for Waiver of Implementation (filed Mar. 20, 2025).

⁷ Order (PSC Ky. Apr. 17, 2025).

⁸ Case No. 2022-00194, *Electronic Purchased Water Adjustment Filing of Breathitt County Water District*. Case No. 2023-00216, *Electronic Purchased Water Adjustment Filing of Breathitt County Water District*. Case No. 2024-00215, *Electronic Purchased Water Adjustment Filing of Breathitt County Water District*. Case No. 2025-00234, *Electronic Purchased Water Adjustment Filing of Breathitt County Water District*.

⁹ Breathitt District's Renewed Motion for Waiver of Implementation (Renewed Motion) (filed Sep. 12, 2025).

¹⁰ Renewed Motion at 1.

¹¹ Renewed Motion at 1.

¹² Renewed Motion at 1.

December 31, 2024, reflected a stable and improving financial position, despite ongoing investments in infrastructure and service improvements.¹³ Breathitt District's noted highlights included an increase in total net position of approximately \$1.85 million; a decrease in liabilities, both current and long-term; a significant increase in capital assets; and an increase in restricted funds by nearly \$417,000.¹⁴ Breathitt District stated that the improvements were achieved without increasing customer rates during the reporting period.¹⁵

FINANCIAL CONDITION

Breathitt District's financial snapshot for 2020 through 2024 is presented below.¹⁶

¹³ Renewed Motion at 1.

¹⁴ Renewed Motion at 2.

¹⁵ Renewed Motion at 2.

¹⁶ Breathitt District's 2020 Audited Financial Statements, Breathitt District's 2021 Audited Financial Statements, Breathitt District's 2022 Audited Financial Statements, Breathitt District's 2023 Audited Financial Statements, Breathitt District's 2024 Audited Financial Statements. Annual Report of Breathitt District to the Public Service Commission for the Calendar Year Ended December 31, 2020 (2020 Annual Report), Breathitt District to the Public Service Commission for the Calendar Year Ended December 31, 2020 (2020 Annual Report), Breathitt District to the Public Service Commission for the Calendar Year Ended December 31, 2021 (2021 Annual Report), Breathitt District to the Public Service Commission for the Calendar Year Ended December 31, 2022 (2022 Annual Report), Breathitt District to the Public Service Commission for the Calendar Year Ended December 31, 2023 (2023 Annual Report), Breathitt District to the Public Service Commission for the Calendar Year Ended December 31, 2024 (2024 Annual Report),

	Audited	Audited	Audited	Audited	Audited	Pro Forma with Phase II and III Rates	Pro Forma without III Rates
Description / Year	2020	2021	2022	2023	2024		
<i>Adjusted Net Income</i>							
Net Income / (Loss) before Contributions	\$ (1,052,079)	\$ (961,005)	\$ (1,093,158)	\$ (119,886)	\$ (1,208,679)	\$ (1,378,530)	\$ (1,378,530)
Other Non-recurring Items	0	(49,300)	(75,008)	(1,319,873)	(139,235)	552,440	331,428
Non-Cash Pension and OPEB Expense / (Income)	72,009	28,263	28,878	20,069	(30,616)	398,000	398,000
Adjusted Net Income / (Loss) before Contributions	\$ (980,070)	\$ (982,042)	\$ (1,139,288)	\$ (1,419,690)	\$ (1,378,530)	\$ (428,090)	\$ (649,102)
Subtract: Principal Payments ()	(91,037)	(91,879)	(100,231)	(94,090)	(87,458)	(87,458)	(87,458)
Rate Based Income	\$ (1,071,107)	\$ (1,073,921)	\$ (1,239,519)	\$ (1,513,780)	\$ (1,465,988)	\$ (515,548)	\$ (736,560)
Add: Depreciation Expense	1,115,021	1,118,390	1,134,847	1,141,356	1,146,018	743,356	743,356
Cash Basis Income	\$ 43,914	\$ 44,469	\$ (104,672)	\$ (372,424)	\$ (319,970)	\$ 227,808	\$ 6,796
Cash Basis Income as Percent of Depreciation	4%	4%	-9%	-33%	-28%		
Capital Spending	\$ 210,924	\$ 551,790	\$ -	\$ 898,586	\$ 2,978,489		
<i>Cash and Investments</i>							
Unrestricted Cash and Investments	\$ 73,616	\$ 92,335	\$ 93,339	\$ 1,402,266	\$ 471,549		
Restricted Funds	206,598	231,521	194,810	435,110	852,013		
Adjusted Cash Balances	280,214	323,856	288,149	1,837,376	1,323,562		
Net Increase (Decrease) in Cash	\$ 31,387	\$ 43,642	\$ (35,707)	\$ 1,549,227	\$ (513,814)		

Notes

(1) 2023 - FEMA, EKSAFE, and insurance reimbursements related to flood damage. Capital Expenditures in 2023 was funded from grants and other capital contributions.

Selected Statistical Information (PSC Annual Reports)

Customer Count	1,897	2,001	2,003	2,050	2,040	
Gallons Purchased	85,532	84,655	84,032	82,149	83,337	
Gallons Sold	67,447	70,233	68,373	68,696	68,916	
Gallons Used for Internal Use	7,755	4,243	3,758	2,485	3,393	
Water Loss Gallons	10,330	10,179	11,901	10,968	11,028	
System Use Percentage	9.07%	5.01%	4.47%	3.02%	4.07%	Average
Water Loss Percentage	12.0774%	12.0241%	14.1625%	13.3513%	13.2330%	12.9697%
Gallons Sold Per Customer Per Month	2,963	2,925	2,845	2,793	2,815	
Revenues from Sale of Water	\$ 1,107,245	\$ 1,211,343	\$ 1,203,000	\$ 1,170,857	\$ 1,450,836	
Purchased Water Expense	339,425	334,036	354,606	364,440	376,112	
Purchased Water Expense Over 15% Water Loss	0	0	0	0	0	
Water Loss Expense Over 15% as Percentage of Water Revenue	0.00%	0.00%	0.00%	0.00%	0.00%	

The final Order for this case, entered January 31, 2024, used a 2021 test year, and reflected an ordered increase of \$663,039 or 54.07 percent. The increase was approved in three annual phases beginning January 31, 2024, with an initial increase of approximately \$202,594, and subsequent increases of approximately \$221,012 on January 31, 2025, and January 31, 2026, with a remaining increase of approximately \$18,418 during the first month of 2027 as shown in the following table .

Year	January 1 thru 31	February 1 thru December 31	Cumulative Impact	Incremental Increase
2024	\$ -	\$ 202,594	202,594	\$ 202,594
2025	18,418	405,189	423,606	221,012
2026	36,835	607,783	644,618	221,012
2027	<u>\$ 55,253</u>	<u>\$ 607,783</u>	<u>\$ 663,036</u>	18,418
Total				<u>\$ 663,036</u>

Rate based loss (adjusted net income minus principal payments) averaged \$1,224,582 for 2020 through 2023. The rate-based loss in 2024 was \$1,465,988 inclusive of the initial rate adjustment impact. Based on Breathitt District's financial information provided to the Commission in annual filings, the pro forma projection inclusive of Phase two and Phase three rates result in a net rate-based loss of \$515,548. In addition, while Breathitt District's 2020 and 2021 cash-basis income (rate-based income plus depreciation expense) was marginal, it was a loss in 2022, 2023 and 2024. Breathitt District projects an income of \$227,808 for the pro forma reference as shown in the table above. According to the audited financial statements, cancellation of the Phase three rate increase would result in a pro forma rate-base loss of \$736,500 and a cash basis income of \$6,796, as shown in the table above.

Water loss percentage averaged 12.9697 percent for the five-year period and was below 15 percent in each year as shown in the table above.

In Case No. 2025-00234, a purchase water adjustment, the Commission noted concerns regarding Breathitt District's financial condition. As a result of those concerns, Breathitt District was ordered to file a general rate adjustment; an application for an alternative rate adjustment; or justification explaining why such a filing is unnecessary by

August 31, 2026, which would allow an assessment of Breathitt District's financial performance inclusive of future revenues to be realized from this case.¹⁷

FINDINGS

While the Commission notes that Breathitt District's financial condition has improved, the Commission finds that Breathitt District has failed to provide sufficient evidence that its financial condition is such that the Phase three rates should be waived. For these reasons, the Commission finds that Breathitt District's renewed motion for waiver of implementation should be denied. Additionally, the Commission notes that in the final Order for this case,¹⁸ the Commission ordered Breathitt District to

use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes (sic) in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate."

Based on Breathitt District's financial snapshot it does not appear that the depreciation calculation reflects the changes to useful lives for accounting purposes. The Commission reminds Breathitt District that it must adhere to the orders of the January 31, 2024, Order as well as the final Order in Case No. 2025-00234.

IT IS THEREFORE ORDERED that

1. Breathitt District's renewed motion for waiver of implementation is denied.

¹⁷ Case No. 2025-00234, *Electronic Purchased Water Adjustment Filing of Breathitt County Water District*, (Ky. PSC Sept 12, 2025), Order at 8, ordering paragraph 8.

¹⁸ Case No. 2022-00136 *Electronic Application of Breathitt County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 31, 2024), final Order, ordering paragraph 12.

2. Breathitt District shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

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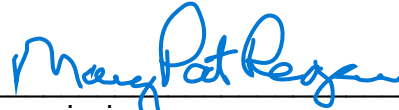
PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

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ATTEST:



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