

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WESTERN)	
ROCKCASTLE WATER ASSOCIATION, INC. FOR)	CASE NO.
A RATE ADJUSTMENT PURSUANT TO 807 KAR)	2025-00001
5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of June 4, 2025, the attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's February 21, 2025 Order, Western Rockcastle Water Association, Inc. (Western Rockcastle Water) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Western Rockcastle Water to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED JUN 30 2025

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 WESTERN ROCKCASTLE WATER ASSOCIATION

Western Rockcastle Water Association, Inc. (Western Rockcastle Water) is a Water utility organized pursuant to KRS Chapter 273 that owns and operates a distribution system through which it provides retail water service to approximately 4,372 residential customers who reside in Garrard, Madison, Pulaski, and Rockcastle counties, Kentucky.¹

On February 3, 2025,² Western Rockcastle Water 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 Western Rockcastle Water used the calendar year ended December 31, 2023, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No.

¹ *Annual Report of Western Rockcastle Water Association, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 12 and 49.

² Western Rockcastle Water tendered its application on January 25, 2025. By letter dated January 28, 2025, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on February 3, 2025.

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.

2023-00334, which required Western Rockcastle Water to apply an adjustment of its base rates for its water division by October 31, 2024.⁴ Western Rockcastle Water filed a motion requesting a 45-day extension,⁵ however, the Commission denied the request and ordered Western Rockcastle Water to file an application for a rate adjustment immediately.⁶ According to Commission records, Western Rockcastle Water has not sought a base rate increase pursuant to the alternative rate filing procedure or a general rate adjustment pursuant to 807 KAR 5:001, Section 16, it has only adjusted its rates pursuant to purchased water adjustments, financing approval, in conjunction with an application for a Certificate of Public Convenience and Necessity, and pursuant to KRS 278.023 financing cases. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated February 21, 2025. Western Rockcastle Water responded to two requests for information from Commission Staff, as well as filing a set of revised responses to Staff's Second Request.⁷ On June 4, 2025, the Commission issued an Order with an amended procedural schedule to allow

⁴ Case No. 2023-00334, *Electronic Application of Western Rockcastle Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Nov. 22, 2023), final Order at 9, ordering paragraph 14.

⁵ Case No. 2023-00334, Oct. 31, 2024 Request for an Extension of Time to File a ARF Application.

⁶ Case No. 2023-00334, Dec 30, 2024 Order.

⁷ Western Rockcastle Water's Response to Commission Staff's First Request for Information (Staff's First Request), (filed over three days Apr. 7, 2025, Apr. 8, 2025, and Apr. 9, 2025). Western Rockcastle Water's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed May 5, 2025). The responses to Staff's Second Request were revised and refiled on May 14, 2025.

Commission Staff additional time to draft the Staff Report,⁸ in part due to a pending Purchase Water Adjustment application.⁹

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2023 Annual Report, Western Rockcastle Water reported a water loss of 75.9627 percent.¹⁰ Based upon discovery responses provided by Western Rockcastle Water in this matter, the water loss reported in Western Rockcastle Water's 2023 Annual Report was incorrect.¹¹ To identify and correct the erroneous information set forth in the 2023 Annual Report, Western Rockcastle Water requested and was provided the gallons purchased from its wholesalers.¹² Additionally, in the application, Western Rockcastle Water's billing analysis stated the amount of water sold in 2023 as 310,053,400 gallons;¹³ however, in the monthly Water reports submitted to the case record,¹⁴ Western Rockcastle Water revised the total amount sold during 2023, to 261,231,500 gallons.¹⁵ Using the revised test year gallons purchased and the revised gallons sold for calendar year 2023, Western Rockcastle Water revised the test-

⁸ Order (Ky. PSC Jun. 4, 2025) at 2.

⁹ Case No. 2025-00144, *Electronic Purchased Water Adjustment Filing of Western Rockcastle Water Association, Inc.* (Ky. PSC June 10, 2025).

¹⁰ 2023 Annual Report at 57–58.

¹¹ Western Rockcastle Water's Response to Staff's Second Request, Item 14.

¹² Western Rockcastle Water's Revised Response to Staff's Second Request, Item 1.

¹³ Application, Attachment 5, 5.a_Current_Billing_Analysis_CY_Rates.pdf.

¹⁴ Western Rockcastle Water's Response to Staff's Second Request, Item 14.

¹⁵ Western Rockcastle Water's Revised Response to Staff's Second Request, Item 6, 6_CalendarYear_2023_Monthly_Water_Reports.xlsx, Management Annual Report Tab. Total Water Sold.

year water loss percentage from 75.9627 percent to 16.7989 percent.¹⁶ Commission Staff reviewed water loss performance for 2019 through 2023 as shown in the following table. As evidenced in the chart, Western Rockcastle Water has a history of inconsistent water loss.¹⁷

Description / Year	2019	2020	2021	2022	2023			
					Reported	1st revision	2nd revision	3rd Revision
Gallons Purchased	276,343	279,653	306,596	226,910	13,296	311,850	298,776	313,976
Gallons Sold	211,905	229,986	216,628	221,604	3,196	310,053	261,232	261,232
Gallons Used for Internal Use	217	191	775	-	-	-	306	296
Water Loss Gallons	64,221	49,476	89,193	5,296	10,100	1,797	37,555	52,744
System Use Percentage	0.08%	0.07%	0.25%	0.00%	0.00%	0.00%	0.10%	0.09%
Water Loss Percentage	23.2396%	17.6919%	29.0914%	2.3340%	75.9627%	0.5762%	12.5695%	16.7989%

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.¹⁸ The table below shows that the 2023 annual cost of water loss, based on Western Rockcastle Water's revised statistics, is \$197,021, while the annual cost of water loss in excess of 15 percent is \$21,098.

Although Western Rockcastle Water excess water loss for the 2023 test year may not be considered egregious, its inconsistent reports of water loss since 2019 seems to indicate a lack of control and management regarding the system's water loss. Excess water loss not only unnecessarily costs customer's money, in some situations it can

¹⁶ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 14.

¹⁷ *Annual Report of Western Rockcastle Water to the Public Service Commission for the Calendar Year Ended December 31, 2019* (2023 Annual Report) at 57. *Annual Report of Western Rockcastle Water to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 57. *Annual Report of Western Rockcastle Water to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 57–58. *Annual Report of Western Rockcastle Water to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 57–58. 2023 Annual Report at 57–58.

¹⁸ 807 KAR 5:066, Section 6(3).

undermine the system's ability to reliably serve its customers. On a going forward basis, Commission Staff recommends that Western Rockcastle focus on identifying and correcting reporting and tracking errors involving its monthly water purchased and sold amounts.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,079,779	\$ 93,046	\$ 1,172,825
Water Loss Percent	16.7989%	16.7989%	16.7989%
Total Water Loss	<u>\$ 181,390</u>	<u>\$ 15,631</u>	<u>\$ 197,021</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,079,779	\$ 93,046	\$ 1,172,825
Water Loss in Excess of 15%	1.7989%	1.7989%	1.7989%
Disallowed Water Loss	<u>\$ 19,424</u>	<u>\$ 1,674</u>	<u>\$ 21,098</u>

DISCUSSION

Using its pro forma test-year operations, Western Rockcastle Water originally determined that a base rate revenue increase of \$279,262 or 12.35 percent, was necessary to achieve the revenue requirement as shown in the table below.¹⁹ However, the revenue requirement contained an omission of not including the Non-utility Income in the calculation. Additionally, Western Rockcastle Water revised the revenue requirement three times after the initial application.²⁰ In its third Revised Revenue Requirement calculation, Western Rockcastle Water determined that a base rate revenue

¹⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Revenue Requirements Table.

²⁰ Western Rockcastle Water's Response to Staff's First Request, 3_WRWA_Rate_Model_Revised.xlsx, SAO-OP Ratio Tab, Revenue Requirements Table. Western Rockcastle Water's Response to Staff's Second Request, Item 9. And Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model_Revised.xlsx, SAO-OP Ratio Tab, Revenue Requirements Table.

increase of \$270,448 or 11.96 percent, was necessary to achieve the revenue requirement.²¹

Description	Western Rockcastle Water Application
Pro Forma Operating Expenses	\$ 2,171,413
Operating Ratio	88%
Subtotal	2,467,515
Average Annual Interest Expense	83,804
Total Revenue Requirement	2,551,319
Other Operating Revenue ()	(8,969)
Interest Income ()	(2,708)
Nonutility Income- Gain on Sale of Equipment ()	(22,000)
Revenue Required From Rates	2,539,642
Normalised Revenues From Water Sales ()	(2,260,380)
Required Revenue Increase / (Decrease)	\$ 279,262
Percentage Increase / (Decrease)	12.35%

To determine the reasonableness of the rates requested by Western Rockcastle Water, Commission Staff performed a limited review of Western Rockcastle Water's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable²² changes to test-year operations were identified, and

²¹ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model_Revised.xlsx, SAO-OP Ratio Tab, Revenue Requirements Table.

²² 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." See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25,

adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Western Rockcastle Water's Overall Revenue Requirement, and Elizabeth Stefanski reviewed Western Rockcastle Water's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio (OR) method, requested by Western Rockcastle Water, and as previously accepted by the Commission, Commission Staff found that Western Rockcastle Water's required revenue from water sales is \$2,756,123 to meet the Overall Revenue Requirement of \$2,763,484, and that a \$306,340 revenue increase, or 12.50 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. In its application, Western Rockcastle Water proposed to increase all of its monthly retail water service rates evenly across the board by approximately 12.35 percent.²³ Western Rockcastle Water stated that it did not file a cost-of-service study (COSS) at this time, considering there have been no material changes in the water system that would cause a new COSS to be prepared.²⁴

2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

²³ Application, 4_SAO_With_Attachments.pdf, Revenue Requirements table.

²⁴ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model_Revised.xlsx, SAO-OP Ratio Tab, Revenue Requirements Table.

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 in the absence of a COSS.²⁵ Finding no such evidence in this case, Commission Staff allocated the \$306,340 revenue increase evenly across Western Rockcastle Water's monthly retail water service rates. The rates recommended in Appendix B to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,756,123 revenue required from rates, an approximate 12.50 percent increase. The monthly water bill for a typical residential customer using approximately 5,833 gallons per month²⁶ will increase by \$7.92 from \$63.43 to \$71.35 or approximately 12.48 percent.

3. Nonrecurring Charge and Meter Connection Charges. Following the Commission's previous decisions identifying issues with the calculation of Nonrecurring Charges,²⁷ Commission Staff reviewed Western Rockcastle Water's Nonrecurring Charges. Since utility personnel are already compensated for labor performed during regular business hours, estimated labor costs representing periods occurring during regular business hours, which were previously included in determining Nonrecurring

²⁵ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

²⁶ Western Rockcastle Water's Revised Responses to Information Request 2 and updated Rate Model, (filed May 14, 2025), 3_WRWA_Rate_Model_Revised, Tab, BA CY 2023 Rates; (the average retail customer uses 5,833 gallons per month).

²⁷ 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).

Charges expense, should be eliminated from the charges. These charges should be eliminated because they are already recovered as part of the salaries and wages expense, and thus do not represent an actual, additional unrecovered expense to the utility. Western Rockcastle Water provided updated cost justification sheets for the nonrecurring charges.²⁸ Commission Staff reviewed the cost justification information provided by Western Rockcastle Water and adjusted these charges by removing charges associated with activities that occur during regular business hours from the Field Labor Costs and Office/Clerical Labor Costs charges. Western Rockcastle Water provided the cost justification information shown in Appendix A and supports the adjustments. The table below shows the current and revised nonrecurring charges.²⁹

Nonrecurring Charges	Current Charge	Revised Charge
Connection Turn-On	\$45	\$13
Disconnect/Reconnect Charge	\$60	\$13
Field Collection Charge	\$30	\$10

For Meter Connection Charges, Western Rockcastle Water provided updated cost justification sheets for its 5/8-inch x 3/4-inch Meter Connection/Tap-On Charge.³⁰ Commission Staff reviewed the information provided by Western Rockcastle Water and recommends that the Commission increase the Tap-On charges as shown in the table

²⁸ Western Rockcastle Water's Response to Staff's First Request, Item 21, and Western Rockcastle Water's Additional Response to Staff's First Request, (filed Apr. 9, 2025), Item 21_Non-Recurring_Charge_Cost_Justification.pdf.

²⁹ Only Nonrecurring Charges revised by Commission Staff are listed in the table above.

³⁰ Western Rockcastle Water's Response to Staff's First Request, Item 22_Cost_Justification_Tap-on_Fees.pdf.

below, because the higher rates are based on known and measurable adjustments provided in the supporting documentation.³¹

<u>Meter Connection/Tap On Charges</u>	<u>Current Charge</u>	<u>Revised Charge</u>
5/8 x 3/4 Inch Water Tap On	\$700.00	\$1,387.00
All Other Meters	Actual Cost	Actual Cost

PRO FORMA OPERATING STATEMENT

Western Rockcastle Water's Pro Forma Operating Statement for the test year ended December 31, 2023, as determined by Commission Staff appears in the table below.

³¹ Western Rockcastle Water's Response to Staff's First Request, Item 22_Cost_Justification_Tap-on_Fees.pdf.

Description	Test Year	Western Rockcastle Water's Application Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
Operating Revenues						
Metered Retail Sales	\$ 2,070,082	\$ (98,855)		\$ (98,855)	(A)	
		206,303		206,303	(B)	
		82,850		82,850	(C)	
			\$ 189,403	189,403	(C)	\$ 2,449,783
Other Revenues						
Forfeited Discounts			6,986	6,986	(A)	
			(2,931)	(2,931)	(D)	4,055
Miscellaneous Service Revenues	114,496	(112,513)	202,398	89,885	(A)	
			(204,381)	(204,381)	(E)	
			598	598	(F)	598
Other Water Revenues		6,986	(5,003)	1,983	(A)	
			(1,983)	(1,983)	(G)	-
Total Operating Revenues	2,184,578	84,771	185,087	269,858		2,454,436
Operation and Maintenance						
Salaries and Wages - Employees	400,648	3,000	(3,000)	-	(H)	
		(622)	(3,000)	(3,622)	(I)	
		(10,710)		(10,710)	(J)	386,316
Salaries and Wages - Officers	36,000			-		36,000
Employee Benefits	214,458	(3,000)		(3,000)	(H)	
		(46,205)	20,000	(26,205)	(K1)	
		(47,526)	686	(46,840)	(K2)	138,413
Employee Pensions	10,089	1,912	(90)	1,822	(L)	11,911
Purchased Water	936,927		142,852	142,852	(M)	
			(19,424)	(19,424)	(N)	1,060,355
Purchased Power	93,046		(1,674)	(1,674)	(N)	91,372
Materials and Supplies	73,206	(24,990)		(24,990)	(J)	48,216
Contractual Services - Accounting	26,200			-		26,200
Contractual Services - Legal	7,800			-		7,800
Insurance - Vehicle	42,086			-		42,086
Insurance - General Liability	4,192			-		4,192
Insurance - Worker's Compensation	10,630			-		10,630
Bad Debt Expense			20,701	20,701	(O)	20,701
Miscellaneous	159,567		7,647	7,647	(P)	167,214
Total	2,014,849	(128,141)	164,698	36,557		2,051,406
Depreciation Expense	326,274	(74,695)	6,827	(67,868)	(Q)	
			1,785	1,785	(R)	260,191
Taxes Other Than Income	28,348	4,778		4,778	(S)	33,126
Total Operating Expenses	2,369,471	(198,058)	173,310	(24,748)		2,344,723
Net Operating Income	(184,893)	282,829	11,777	294,606		109,713
Interest Income	2,708			-		2,708
Gain (Loss) on Sale of Equipment	22,000		(22,000)	(22,000)	(T)	-
Income Available to Service Debt	\$ (160,185)	\$ 282,829	\$ (10,223)	\$ 272,606		\$ 112,421

(A) Reconciliation of Audit. In its application, Western Rockcastle Water proposed a decrease to Retail Metered Sales of \$98,855, a decrease to Miscellaneous Service Revenues of \$112,513, as well as an increase to Other Water Revenues of

\$6,986³² to reconcile the 2023 Annual Report to the 2023 Audit.³³ In subsequent revisions to the adjustments, Western Rockcastle Water proposed a decrease in Retail Metered Sales of \$98,855, an increase to Forfeited Discounts of \$6,986, an increase to Miscellaneous Service Revenues of \$89,885, which is \$202,398 more than the initial proposed adjustment, and an increase to Other Water Revenues of \$1,983, which is \$5,003 less than the initial proposed adjustment³⁴ Western Rockcastle Water provided a table with the detailed adjustments in an amended Statement of Adjusted Operations.³⁵ Western Rockcastle Water stated the total Revenues reported for the 2023 test year of \$2,184,578 was correct; however, the sub totals reported in the 2023 Annual Report were incorrect.³⁶ The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that forfeited discounts, miscellaneous service revenues, and other water revenues be recorded as part of Other Water Revenues and not Water Sales.³⁷ Therefore, Commission Staff decreased Metered Retail Sales by \$98,885, while making a corresponding adjustment to increase Forfeited Discounts by \$6,986, Miscellaneous Service Revenues by \$89,885, and Other Water Revenues by \$1,983.

³² Application, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment A.

³³ Application, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment A.

³⁴ Western Rockcastle Water's Revised Response to Staff's Second Request, Item 3, 3_WRWA_Rate_Model_Revised.xlsx, SAO – Op Ratio tab, Adjustment A.

³⁵ Western Rockcastle Water's Response to Staff's First Request, 4_Revised_SAO_With_Attachments.pdf.

³⁶ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf, References, Adjustment A.

³⁷ USoA Water Operating Revenues Accounts, at 120. Water Sales and Other Water Revenues, Accounts 470 Forfeited Discounts, 471 Miscellaneous Service Revenues, and 474 Other Water Revenues.

Commission Staff recommends that the Commission accept Commission Staff's decrease of \$98,855 to Metered Retail Sales and corresponding increase of \$6,986 to Forfeited Discounts, \$89,885 to Miscellaneous Service Revenues, and \$1,983 to Other Water Revenues as they reflect the proper accounting for recording Other Water Revenues a utility earns according to the USoA. The corresponding increases are addressed further below in subsequent adjustments.

(B) Billing Analysis. Western Rockcastle Water reported \$2,070,082 from metered retail sales in its test year.³⁸ As described above in the reconciliation to audit adjustment, Western Rockcastle Water corrected its metered water sales for the test year of 2023 based on its audit results in the same year, totaling \$1,971,227.³⁹ Western Rockcastle Water also provided an updated billing analysis, which reflected a normalized revenue of \$ 2,177,530 using the test year rates.⁴⁰ In its application, Western Rockcastle Water proposed an increase to Total Retail Metered Sales of \$206,303.⁴¹ The billing analysis provided by Western Rockcastle Water requires an adjustment of \$206,303 to normalize retail water sales revenue from its corrected water sales of \$1,971,227.⁴² Commission Staff recommends accepting Western Rockcastle Water's proposed

³⁸ 2023 Annual Report at 49.

³⁹ 2023 Audit Report at 4.

⁴⁰ Western Rockcastle Water's Revised Responses to Staff's Second Request, 3_WRWA_Rate__Model_Revised.xlsx, Tab BA CY 2023 Rates.

⁴¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment C.

⁴² Western Rockcastle Water's Updated Rate Model, (filed May 14, 2025), 3_WRWA_Rate__Model_Revised.xlsx, Tab BA CY 2023 Rates.

increase of \$206,303⁴³ to Retail Metered Sales to normalize water service revenues to the amounts indicated in its billing analysis.

(C) Retail Metered Sales. On November 22, 2023, Western Rockcastle Water increased its water service rates as approved by the Commission in Case No. 2023-00334.⁴⁴ In its application, Western Rockcastle Water proposed an increase to Total Retail Metered Sales of \$82,850 to account for the difference between the water service rates at the beginning of the test year and rates approved on November 22, 2023.⁴⁵ The evidence in the case demonstrates this is a known and measurable adjustment. On June 10, 2025, the Commission approved an additional water service rate increase pursuant to Western Rockcastle Water's filing of a purchased water adjustment application (PWA) case.⁴⁶ The difference between the normalized revenue as calculated by Western Rockcastle Water and the revenue based on June 10, 2025 rates, as approved by the Commission in the PWA Final Order, is an increase to revenue of \$189,403. Commission Staff recommends the Commission accept Commission Staff's total increase of \$272,253, which represents both the adjustment for the rates approved in Case No. 2023-00334 and the PWA adjustment in Case No. 2025-00144.

⁴³ Western Rockcastle Water's Updated Rate Model, 3_WRWA_Rate__Model_Revised.xlsx, Tab SAO-Op Ratio.

⁴⁴ Case No. 2023-00334, Nov. 22, 2023 final Order, Appendix.

⁴⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment D.

⁴⁶ Case No. 2025-00144, June 10, 2025 Order.

(D) Forfeited Discounts. In the application, Western Rockcastle Water reported \$0 for the test year Forfeited Discounts.⁴⁷ As discussed in the Reconciliation of the Audit adjustment, Western Rockcastle Water subsequently proposed an adjustment to increase Forfeited Discounts by \$6,986⁴⁸ to reclassify a portion of the total Revenues reported in its 2023 audit and to reconcile the 2023 Annual Report to the 2023 Audit.⁴⁹ Commission Staff reviewed the 2023 Trial Balance and determined that the \$6,986 refers to the account titled Penalties.⁵⁰ Account 400b, Penalties, does not include late fees, but instead consists of some of Western Rockcastle Water's Miscellaneous Service Revenues.⁵¹ Western Rockcastle Water is unable to explain why these accounts were combined and reported as forfeited discounts.⁵² However, Western Rockcastle Water confirmed that it does charge late fees,⁵³ and during the test year recorded \$4,055 from 994 customers.⁵⁴ Western Rockcastle Water stated that the late fees were erroneously reported in the Revenues from Water Sales Account.⁵⁵ Including the increase of \$6,986

⁴⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

⁴⁸ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, Adjustment A.

⁴⁹ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, References, Adjustment A.

⁵⁰ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf.

⁵¹ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf.

⁵² Western Rockcastle Water's Response to Staff's Second Request, Item 11a.

⁵³ Western Rockcastle Water's Response to Staff's Second Request, Item 11b.

⁵⁴ Western Rockcastle Water's Response to Staff's Second Request, Item 11b.

⁵⁵ Western Rockcastle Water's Response to Staff's Second Request, Item 11c.

accepted in the reconciliation to audit adjustment , Commission Staff decreased pro forma Forfeited Discounts a further \$2,931, to properly record the \$4,055 of late fees that Western Rockcastle Water recorded during the test year.

Commission Staff recommends the Commission accept Commission Staff's decrease of \$2,931 to Forfeited Discounts, to properly record the amount of late fees that Western Rockcastle Water collected during the test year.

(E) Miscellaneous Service Revenues - Grant Money. As discussed in the Reconciliation of the Audit adjustment, Western Rockcastle Water proposed a net adjustment to increase Miscellaneous Service Revenues by \$89,885⁵⁶ to reclassify a portion of the total Revenues reported in its 2023 audit and to reconcile the 2023 Annual Report to the 2023 Audit.⁵⁷ In its revised responses to Commission Staff's Second Request, Western Rockcastle Water proposed an additional adjustment to decrease Miscellaneous Service Revenues by \$204,381⁵⁸ to reflect the removal of Kentucky Infrastructure Authority (KIA) grants that it received from the Fiscal Court to fund construction projects.⁵⁹ Commission Staff reviewed the General Ledger and confirmed that the \$204,381 is recorded as Grant Income.⁶⁰ Since the \$204,381 is grant funds and

⁵⁶ Western Rockcastle Water's Revised Response to Staff's Second Request, Item 3, 3_WRWA_Rate_Model_Revised.xlsx, SAO – Op Ratio tab, Adjustment A.

⁵⁷ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, References, Adjustment A.

⁵⁸ Western Rockcastle Water's Revised Response to Staff's Second Request, Item 3, 3_WRWA_Rate_Model_Revised.xlsx, SAO – Op Ratio tab, Adjustment E.

⁵⁹ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, References, Adjustment E.

⁶⁰ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf.

not recurring revenue generated Western Rockcastle Water, it should be treated as a Contribution in Aid of Construction, and not as revenue. The USoA requires that contributions in aid of construction be recorded as balance sheet accounts and not included as part of revenues.⁶¹

Commission Staff recommends the Commission accept Western Rockcastle Water's adjustment of a \$204,381 decrease to Miscellaneous Service Revenues because it reflects the proper accounting for Grant Income according to the USoA.

(F) Misc. Service Revenues/Nonrecurring Charges. As discussed in the previous sections, Western Rockcastle Water proposed to report KIA Grant funds as Miscellaneous Service Revenue and included nonrecurring revenue in the 400b Penalties account instead of properly reporting the nonrecurring revenue as Miscellaneous Service Revenue. Commission Staff reviewed the 2023 Trial Balance,⁶² responses from data requests⁶³, and the cost justification sheets⁶⁴ for the nonrecurring charges. Western Rockcastle Water provided detailed information about the number of occurrences and the amount collected for the nonrecurring charges.⁶⁵ Western Rockcastle Water's data indicates that, in the test year, \$2,363 was collected in Miscellaneous Service Revenue

⁶¹ USoA, Accounting Instruction, Balance Sheet Accounts, Account 271. Contributions in Aid of Construction.

⁶² Western Rockcastle Water's Response to Staff's First Request, Item 1c, 1.c_2023_Trial_Balance_Annual_Report_Recon.pdf.

⁶³ Western Rockcastle Water's Response to Item 20 of Staff's First Request, (filed May 29, 2025), 20_Nonrecurring_Charge_Detail.pdf.

⁶⁴ Western Rockcastle Water's Additional Response to Staff's First Request, (filed Apr. 9, 2025), Item 21_Non-Recurring_Charge_Cost_Justification.pdf.

⁶⁵ Western Rockcastle Water's Additional Response to Staff's First Request, Item 21_Non-Recurring_Charge_Cost_Justification.pdf.

from nonrecurring charges.⁶⁶ As discussed in the Nonrecurring Charges section above, nonrecurring charges were adjusted by removing Field Labor Costs and the Office/Clerical Labor Costs from those charges that occur during normal business hours. As shown in the table below, to normalize revenue from nonrecurring charges, an increase of \$598 is recommended by Commission Staff.

Nonrecurring Charges	Occurrences	Current Charge	Revenue Reported	Revised Charge	Adjustment	Pro Forma Revenue
Connection Turn-On	27	\$ 45	\$1,223	\$ 13	(\$872)	\$351
Disconnect/Reconnect Charge	19	\$ 60	1,140	\$ 13	(893)	247
Field Collection Charge	0	\$ 30	-	\$ 10	-	-
TOTAL			<u>\$2,363</u>		<u>(\$1,765)</u>	<u>\$598</u>

(G) Other Water Revenues. As discussed in the Reconciliation of the Audit adjustment, Western Rockcastle Water proposed an adjustment to increase Other Water Revenues by \$1,983,⁶⁷ to reclassify a portion of the total Revenues reported in its 2023 audit and to reconcile the 2023 Annual Report to the 2023 Audit.⁶⁸ In its revised response to Commission Staff's Second Request, Western Rockcastle Water proposed an increase to Other Water Revenues of \$1,983⁶⁹ to reclassify a portion of the total Revenues reported in its 2023 audit to reconcile the 2023 Annual Report to the 2023 Audit.⁷⁰ Commission Staff reviewed the Adjusted Trial Balance and determined the Miscellaneous

⁶⁶ Western Rockcastle Water's Response to Item 20 of Staff's First Request, 20_Nonrecurring_Charge_Detail.pdf.

⁶⁷ Western Rockcastle Water's Revised Response to Staff's Second Request, Item 3, 3_WRWA_Rate_Model_Revised.xlsx, SAO – Op Ratio tab, Adjustment A.

⁶⁸ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, References, Adjustment A.

⁶⁹ Western Rockcastle Water's Revised Response to Staff's Second Request, Item 3, 3_WRWA_Rate_Model_Revised.xlsx, SAO – Op Ratio tab, Adjustment A.

⁷⁰ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, Adjustment A.

Revenues were composed of account 4005 – KACO Refund of \$1,540,⁷¹ account 4022 – Reimbursement for a job of (\$147),⁷² and account 4019 – Miscellaneous Income – Other of \$590.⁷³ Since the KACO amount is a refund and the job reimbursement is a reimbursement, these are not considered revenues. The \$590 of Miscellaneous Income-Other is considered unusual transactions, not expected to reoccur, and therefore, should also be removed from the test year. The net effect is a reduction of \$1,983 to Other Water Revenues, for a pro-forma Other Water Revenues of \$0, as shown in the following table.

Description	Corrected Test	Western Rockcastle Water's Adjustments	Commission Staff Adjustments	Pro Forma
<i>Other Water Revenues</i>				
KACO Refund	\$ -	\$ 1,540	\$ (1,540)	\$ -
Misc. Income - Other		590	(590)	-
Reimbursement for Job		(147)	147	-
Sub-Total	\$ -	\$ 1,983	\$ (1,983)	\$ -

Commission Staff recommends the Commission accept Commission Staff's adjustment to decrease Other Water Revenues by \$1,983, since the amounts reported are either not reported as revenues or are unusual, non-recurring transactions.

(H) Salaries and Wages – Employees – Christmas Bonus. In its application, Western Rockcastle Water proposed an adjustment to reduce Employee Pensions and Benefits by \$3,000, while increasing Salaries and Wages – Employees by the same

⁷¹ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf, Account 4005 – KACO refund.

⁷² Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf., account 4022 – Reimbursement for job.

⁷³ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf, account 4019 – Miscellaneous income – other.

\$3,000,⁷⁴ to correct the misclassification of Employee bonuses in the Employee Pension and Benefits account.⁷⁵ Commission Staff agrees with the proposed reclassification of \$3,000 from Employee Pensions and benefits since the USoA includes salaries, bonuses and other consideration for services in Salaries and Wages – Employees.⁷⁶ Western Rockcastle Water confirmed that the Bonus represents a Christmas bonus that it gave to each employee.⁷⁷ Historically, the Commission has not included bonuses or incentive compensation in the calculation of pro forma salaries and wages expense in its calculated Revenue Requirement.⁷⁸ The Attorney General has stated that a water district may only make expenditures that are consistent with its statutory purpose to furnish a water supply.⁷⁹

As a creature of statute, a water district create pursuant to KRS Chapter 74 may expend funds only in keeping with its statutory purpose, or express statutory authorization.⁸⁰

To expense any part of the funds arising from fees for water services for any purpose other than those for which the district was created is to contravene the provisions contained in sections 171 and 180, State Constitution, and to do so, is illegal. The officer making such illegal expenditure subjects

⁷⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment B.

⁷⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment B.

⁷⁶ USoA, Accounting Instruction, Balance Sheet Accounts, Account 601. Salaries and Wages - Employees.

⁷⁷ Western Rockcastle Water's Response to Staff's First Request, Item 6.

⁷⁸ See Case No. 2022-00317, *Electronic Application of North Shelby Water Company for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Dec. 15, 2023), Order at 11–12; Case 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076* (Ky. PSC, Sept. 13, 2022), Order at 9.

⁷⁹ OAG 92-43 (Mar 19, 1992).

⁸⁰ OAG 92-43 (Mar 19, 1992).

himself to the obligation upon the demand of any citizen who pays fees for water services to either recover from the person to whom the illegal sum was donated or to reimburse the district for the amount of the illegal donation.⁸¹

Western Rockcastle Water has not provided evidence in the record to indicate that the bonus payments are a necessary part of employee compensation. Consistent with prior treatment of the calculation of pro forma Salaries and Wages and the Attorney General's opinion, Commission Staff does not agree with including the bonus in the pro forma Salaries and Wages – Employees.

Commission Staff recommends the Commission accept Commission Staff's reclassification of \$3,000 from Employee Pensions and Benefits to Employee Salaries and Wages since according to the USoA bonuses should be included in Employee Salaries. Commission Staff also recommends the Commission deny the inclusion of \$3,000 of Christmas bonuses in Employee Salaries and Wages because it reflects the precedent in not including recovery of Christmas bonuses provided.

(I) Salaries and Wages – Employees. In its application, Western Rockcastle Water proposed an adjustment to decrease Salaries and Wages – Employees by \$622,⁸² due to changes in the staffing levels.⁸³ Western Rockcastle Water lost two employees due to illness and death; one position was filled in 2023, and there are no plans to fill the

⁸¹ 1956 OAG 36,219.

⁸² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment F.

⁸³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Unreferenced Adjustment.

remaining position.⁸⁴ Western Rockcastle Water provided the test year employee list,⁸⁵ test year total hours worked,⁸⁶ current wage rates,⁸⁷ and a current employee list.⁸⁸

Commission Staff calculated a Total Salaries and Wages – Employees of \$397,026, which is \$3,622 less than the test year Salaries and Wages – Employee of \$400,648, since Commission Staff did not recommend the inclusion of the \$3,000 bonus pay. Commission Staff's decrease is \$3,000 more than Western Rockcastle Water's proposed \$622 decrease, as shown in the table below.

Employee Number	Test-Year Regular Hours	Current Wage Rate	Total Regular Wages	Test-Year Overtime Hours	Current Overtime Rate	Total Overtime Wages	Total Wages
Employee 1	2,080	\$ 10.00	\$ 20,800	-	\$ 15.00	\$ -	\$ 20,800
Employee 2	2,080	16.50	34,320	98	25	2,426	36,746
Employee 3	1,980	16.00	31,680	57	24	1,368	33,048
Employee 4	2,080	16.81	34,965	8	25	202	35,167
Employee 5	2,080	Salary	37,586	8	-	-	37,586
Employee 6	2,080	20.29	42,203	547	30	16,651	58,854
Employee 7	2,080	26.42	54,954	107	40	4,240	59,194
Employee 8	2,080	Salary	42,328	64	-	-	42,328
Employee 9	2,080	35.04	72,883	8	53	420	73,303
Total	<u>18,620</u>		<u>\$ 371,719</u>	<u>897</u>		<u>\$25,307</u>	397,026
Test-Year Emp. Salaries & Wages Exp ()							(400,648)
Pro Forma Adjustment							(3,622)
Western Rockcastle Water's Adjustment ()							622
Difference Between Western Rockcastle Water and Commission Staff's Adjustments							<u>\$ (3,000)</u>

⁸⁴ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, Adjustment F.

⁸⁵ Western Rockcastle Water's Response to Staff's First Request, Item 5, 5_Employee_Salaries_Wages_and_Benefits.xlsx, 2023 Tab, Column G.

⁸⁶ Western Rockcastle Water's Response to Staff's First Request, Item 5, 5_Employee_Salaries_Wages_and_Benefits.xlsx, 2023 Tab, Column M and O.

⁸⁷ Western Rockcastle Water's Response to Staff's First Request, Item 5, 5_Employee_Salaries_Wages_and_Benefits.xlsx, Pro Forma Tab, Column S.

⁸⁸ Western Rockcastle Water's Response to Staff's First Request, Item 5, 5_Employee_Salaries_Wages_and_Benefits.xlsx, Pro Forma Tab, Column S.

Commission Staff recommends the Commission accept Commission Staff's adjustment of a \$3,622 decrease to Salaries and Wages – Employees, as it is a known and measurable change because it reflects the normalized and test year hours at current wage rates with current employees.

(J) Expenses Related to Meter Installations. In its application, Western Rockcastle Water proposed an adjustment to decrease Salaries and Wages – Employees by \$10,710,⁸⁹ and Materials and Supplies by \$24,990,⁹⁰ to account for tap fee expenses that were included as part of these expenses during the test year.⁹¹ The USoA requires that costs, such as tap fee expenses, be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁹² During the test year, Western Rockcastle Water installed 51 new water connections⁹³ and reported collecting \$354,700.⁹⁴ Therefore, Commission Staff agrees with Western Rockcastle Water's proposed adjustments, as shown in the following table.

⁸⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment G.

⁹⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment G.

⁹¹ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf, References, Adjustment G.

⁹² USoA, Accounting Instruction 19 and 33.

⁹³ Western Rockcastle Water's Response to Staff's First Request, Item 14a.

⁹⁴ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf, References, Adjustment G.

Description	Salaries and Wages	Materials and Supplies
Tap Fees Collected	\$ 35,700	\$ 35,700
Allocated Percentage	30%	70%
Western Rockcastle Water's Proposed Adjustment	<u>\$ 10,710</u>	<u>\$ 24,990</u>

Commission Staff additionally capitalized the labor and material costs and made a corresponding adjustment to test-year depreciation as shown in the Capitalization of Water Tap Labor Adjustment.

Commission Staff recommends the Commission accept Western Rockcastle Water's proposed adjustments to decrease Salaries and Wages – Employees by \$10,710 and decrease Materials and Supplies by \$24,990 because it reflects the proper accounting for water connection expenses according to the USoA.

(K) Employee Benefits – Insurance Premiums. Western Rockcastle Water pays 100 percent of the cost of the single plan for each employee.⁹⁵ In its application, Western Rockcastle Water proposed several adjustments to Employee Benefits involving insurance premiums, (1) a decrease of \$46,205⁹⁶ to account for a decrease in insurance premiums due to staffing changes,⁹⁷ (2) a decrease of \$47,526⁹⁸ due to a reduction in

⁹⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment I.

⁹⁶ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment H.

⁹⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment H.

⁹⁸ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment I.

employer compensation to a level consistent with the Bureau of Labor Statistics' National average for an employer's share of health insurance premiums.⁹⁹

As discussed above, Western Rockcastle Water currently has nine full-time employees, two elected not to participate in the insurance provided, leaving seven participants.¹⁰⁰ Western Rockcastle Water provided the most recent copies of its health, vision, and dental insurance invoices.¹⁰¹ Calculating the total current premiums of \$159,657 is a \$26,205 decrease from the test year's \$185,862, adjustment (K1), and \$20,000 less than Western Rockcastle Water's proposed decrease of \$46,205, as shown in the following table.

Upon review of Western Rockcastle Water's proposed adjustment, Commission Staff agrees with Western Rockcastle Water's methodology but calculated a different amount following an adjustment. Western Rockcastle Water used 79 percent for employee-only coverage and 66 percent for family coverage.¹⁰² However, given that updated survey numbers for 2025 were published in September 2024, Commission Staff recognized that using an updated average of 80 percent for employee-only coverage¹⁰³

⁹⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment I.

¹⁰⁰ Western Rockcastle Water's Response to Staff's First Request, Item 7a, 7.a.2025_Employee_Insurance_Invoice_Redacted.pdf.

¹⁰¹ Western Rockcastle Water's Response to Staff's First Request, Item 7a, 7.a.2025_Employee_Insurance_Invoice_Redacted.pdf.

¹⁰² Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf, References, Adjustment I.

¹⁰³ Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 3, private industry workers. (<https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2024.htm#Overview>).

and 68 percent for family coverage¹⁰⁴ would allow for Western Rockcastle Water's rates to reflect the most up-to-date average contribution amounts.¹⁰⁵ Accordingly, Commission Staff adjusted Western Rockcastle Water's health insurance plan premiums contribution expense for single and family plans to 80 and 68 percent, respectively.

Additionally, Western Rockcastle Water proposed reducing dental insurance premiums by 40 percent.¹⁰⁶ Commission Staff instead reduced Western Rockcastle Water's contribution to dental insurance by 60 percent to align with the national average of the employer share of dental insurance premiums as outlined in the Willis Benchmarking Survey,¹⁰⁷ which is shown in the calculation below. As previously addressed, Western Rockcastle Water provided the most recent copy of its health insurance invoice.¹⁰⁸ Utilizing the most recent invoice amounts, Commission Staff calculated the proposed adjustment and decreased Employee Benefits - Insurance by \$46,840, adjustment (K2), which is \$1,755 less than the \$47,526 decrease proposed by Western Rockcastle Water, as shown below.

¹⁰⁴ Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 4, private industry workers. (<https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2024.htm#Overview>).

¹⁰⁵ Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 3, private industry workers. (<https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2024.htm#Overview>).

¹⁰⁶ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf, References, Adjustment I.

¹⁰⁷ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and The Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

¹⁰⁸ Western Rockcastle Water's Response to Staff's First Request, Item 7a, 7.a.2025_Employee_Insurance_Invoice_Redacted.pdf.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Ref	Pro Forma Monthly Premium
Employee Only	3	\$ 3,694	20%	\$ (739)		\$ 2,955
Employee Spouse	4	9,265.00	32%	(2,965)		6,300
Dental	7	332.86	60%	(200)		133
Vision	7	12.90	0%	-		13
Total Monthly Pro Forma Premium		13,305		(3,903)		9,401
Multiplied by: 12 Months		12		12		12
Total Annual Insurance Premium		159,657		(46,840)		112,817
Test Year Health Insurance Premium ()		(185,862)		-		(185,862)
Commission Staff's Net Adjustment		(26,205) (K1)		(46,840) (K2)		(73,045)
Less: Western Rockcastle Water's Adjustment ()		46,205		47,526		93,731
Difference between Commission Staff's and Western Rockcastle Water's Adjustment		<u>\$ 20,000</u>		<u>\$ 686</u>		<u>\$ 20,686</u>

Commission Staff recommends the Commission accept Western Rockcastle Water adjustments as amended by Commission Staff of a \$26,205 (K1) and \$46,840 (K2) decrease to Employee Benefits to reflect the change in insurance premiums, to reflect the reduction of employer contributions, as it conforms to benefit levels documented in published surveys of employee benefits and insufficient evidence that employer contributions in excess of these amounts are appropriate or necessary to attract and retain employees as part of an overall benefit package.

(L) Employee Benefits – Retirement. Western Rockcastle Water provides its employees with a 401(k) benefit.¹⁰⁹ In the application, Western Rockcastle Water proposed an adjustment to increase Employee Pensions and Benefits expense by \$1,912¹¹⁰ to reflect changes in salaries and wages and participation in the 401K plan.¹¹¹

¹⁰⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment J.

¹¹⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment J.

¹¹¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment J.

Western Rockcastle Water contributes a 100% match up to a 3 percent salary level for all full-time employees.¹¹²

Utilizing the total wages calculated above of \$397,026 calculated in the Salaries and Wages – Employee adjustment and Western Rockcastle Water’s 3 percent contribution rate to each 401(k) plan, Commission Staff calculated a Pro Forma Retirement contribution of \$11,911, which is \$1,822 greater than the test year amount and \$90 less than proposed by Western Rockcastle Water, as shown in the following table.

Description	Test Year
Pro Forma - Full Time Regular Wages	\$ 397,026
Multiplied by: Contribution Rate	3.00%
Contributions	11,911
Less: Test year Contribution	(10,089)
Commission Staff's Adjustment	1,822
Less: Western Rockcastle Water's Proposed Adjustment	(1,912)
Difference between Commission Staff's and Western Rockcastle Water's Adjustment	\$ (90)

Commission Staff recommends the Commission accept Commission Staff’s adjustment of a \$1,822 increase to Employee Pensions, because it is a known and measurable change that reflects the rise in employee retirement expense due to a change in Salaries and Wages – Employees.

(M) Purchased Water Expense. Western Rockcastle Water reported \$936,927 for the test year Purchased Water Expense.¹¹³ Western Rockcastle Water purchases

¹¹² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment J.

¹¹³ Western Rockcastle Water’s Response to Staff’s First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf.

water from Mount Vernon Water Works (Mount Vernon), Southern Madison Water District (Southern Madison District), and Broadhead Water Works (Broadhead).¹¹⁴ Mount Vernon and Broadhead currently charge \$3.40 per 1,000 gallons.¹¹⁵ Southern Madison District currently charges a declining balance tiered rate.¹¹⁶ Commission Staff calculated Purchased Water Expense using the test-year gallons purchased from each vendor,¹¹⁷ and the current rates, resulting in a pro forma Purchased Water Expense of \$1,079,779, as shown in the following table. Commission Staff calculated an increase to Purchased Water Expense of \$142,852.

Description	Broadhead Water		Mount Vernon Water Works		Southern Madison Water				Total
	Gallons	Current Cost	Gallons	Cost	Gallons	Volumetric Cost	Withdrawal Fee	Water Loss Surcharge	
January	685,633	\$ 0.00340	28,063,700	\$ 0.00340	651,500	3,249	16	1.94	\$ 101,015
February	751,200	0.00340	22,055,300	0.00340	545,700	2,731	14	1.94	80,289
March	838,700	0.00340	20,728,300	0.00340	547,300	2,739	14	1.94	76,083
April	564,900	0.00340	20,978,800	0.00340	620,000	3,095	16	1.94	76,361
May	880,500	0.00340	23,945,600	0.00340	591,100	2,953	15	1.94	87,379
June	532,933	0.00340	27,088,800	0.00340	693,400	3,454	18	1.94	97,388
July	681,667	0.00340	28,658,900	0.00340	772,800	3,843	20	1.94	103,623
August	717,500	0.00340	24,818,600	0.00340	619,900	3,094	16	1.94	89,935
September	578,600	0.00340	26,963,900	0.00340	738,200	3,674	19	1.94	97,339
October	708,122	0.00340	26,814,700	0.00340	551,600	2,760	14	1.94	96,354
November	535,078	0.00340	24,678,800	0.00340	587,600	2,936	15	1.94	88,680
December	537,800	0.00340	23,593,300	0.00340	655,400	3,268	17	1.94	85,333
Total	<u>8,012,633</u>		<u>298,388,700</u>		<u>7,574,500</u>	<u>37,798</u>	<u>192</u>	<u>23</u>	\$ 1,079,779
Test Year Purchase Cost									(936,927)
Commission Staff's Purchased Water Adjustment									<u>\$ 142,852</u>

Commission Staff recommends the Commission accept Commission Staff's \$142,852 increase to Purchase Water Expense as this is a known and measurable

¹¹⁴ 2023 Annual Report at 54.

¹¹⁵ Western Rockcastle Water's Response to Staff's First Request, Item 11, 11_Current_Water_Cost_Rates.pdf.

¹¹⁶ Western Rockcastle Water's Response to Staff's First Request, Item 11, 11_Current_Water_Cost_Rates.pdf.

¹¹⁷ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, Broadhead_Water_Purchases_2023_2024.pdf, Mt_Vernon_Water_Purchases_2023_2024.pds, and SMWD_Water_Purchases_2023_2024.pdf.

change that reflects the normalization of water purchased during the test year to current rates charged.

(N) Excess Water Loss. During the test year, Western Rockcastle Water had a revised water loss of 16.7989 percent.¹¹⁸ Subsequent to filing the application, Western Rockcastle Water proposed adjustments to decrease Purchased Water Expense by \$16,855¹¹⁹ and Purchased Power expense by \$1,674.¹²⁰ The adjustments are to reflect the expense for water loss in excess of 15 percent. As noted earlier in the report, Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included for ratemaking purposes. As discussed in the Purchased Water adjustment, Commission Staff determined a Purchased Water Expense of \$1,079,779. Therefore, Commission Staff decreased Purchased Water Expense by \$19,424 and Purchased Power Expense by \$1,674, as shown in the following table.

Description	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,079,779	\$ 93,046	\$ 1,172,825
Water Loss in Excess of 15%	1.7989%	1.7989%	1.7989%
Commission Staff's Adjustment	<u>\$ (19,424)</u>	<u>\$ (1,674)</u>	<u>\$ (21,098)</u>

Commission Staff recommends the Commission accept Commission Staff's \$19,424 decrease to Purchase Water Expense and a \$1,674 decrease to Purchased

¹¹⁸ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, Excess Water Loss Tab, Cell H32.

¹¹⁹ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, SAO-OP Ratio Tab, Adjustment M.

¹²⁰ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, SAO-OP Ratio Tab, Adjustment M.

Power Expense, since commission regulation limits the excess water loss recovery in rates to 15 percent.

(O) Bad Debt Expense. In its Application, Western Rockcastle Water reported \$0 for Bad Debt Expense.¹²¹ Subsequent to filing the application, Western Rockcastle Water proposed an adjustment to increase Bad Debt Expense by \$20,701,¹²² in order to reclassify the bad debt expenses into the Bad Debt Expense category. Since the USoA classifies Bad Debt Expense separately from Miscellaneous Expense,¹²³ Commission Staff increased Bad Debt Expense by \$20,701 in order to properly record bad debt in the proper expense category. The removal of Bad Debt from Miscellaneous Expense is addressed in the Miscellaneous Expense Adjustment below.

Commission Staff recommends the Commission accept Commission Staff's increase of \$20,701 to Bad Debt Expense to reflect the inclusion of Bad Debt to the correct category according to the USoA.

(P) Miscellaneous Expense. In its Application, Western Rockcastle Water reported a test year Miscellaneous Expense of \$159,567.¹²⁴ Subsequently, Western Rockcastle Water proposed an adjustment to increase Miscellaneous Expense by \$7,647,¹²⁵ to reconcile the reclassification of \$20,701 of Bad Debt Expense and \$106,206

¹²¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

¹²² Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, SAO-OP Ratio Tab, Adjustment N.

¹²³ USoA, Water Operation and Maintenance Accounts, Account 670 Bad Debt.

¹²⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

¹²⁵ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, SAO-OP Ratio Tab, Adjustment N.

of Interest Expense,¹²⁶ as well as reversing a \$134,553.66 prior year Adjustment.¹²⁷ Commission Staff reviewed the Miscellaneous Expense Adjusted Trial Balance and the sub-account balances¹²⁸ and calculated a pro-forma Miscellaneous Expense of \$167,214 as shown in the following table. Commission Staff increased Miscellaneous Expense by \$7,647 to reconcile the test year Miscellaneous Expense to the 2023 Adjusted Trial balance, while removing expenses not associated with Miscellaneous Expense.

¹²⁶ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, Miscellaneous Tab, Column K.

¹²⁷ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, Miscellaneous Tab, Row 36.

¹²⁸ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf.

Sub-Accounts	Test-Year
Billing Cards	\$ 2,969
Dues & Subscriptions - Admin.	10
Administrative	465
Office Supplies	30,413
Petty Cash	1,687
Postage	23,625
Cleaning	4,195
Lease Payments - Copier	584
Software Contracts	14,672
Repairs & Maintenance	37,540
Box Rental	82
Bank & Credit Card Fees	743
Employee Meals	8,324
Misc.	532
Refunds	(303)
Uniforms	21,869
Security System	890
Utility Regulatory Assessments	4,095
Tax - Licenses & Permits	2,033
Dues & Subscriptions	3,120
Fees	2,120
Donations	2,840
O&M	837
Annual Report Preparation Fee	515
Payroll Tax Expense	1,605
Advertising	1,752
Total Miscellaneous Expense	167,214
Test Year Miscellaneous Expense ()	(159,567)
Western Rockcastle Water's Adjustment	<u>\$ 7,647</u>

Commission Staff recommends the Commission accept Commission Staff's \$7,646 increase to Miscellaneous Expense, to reflect reclassification of Bad Debt Expense and Interest Expense, as well as the reconciliation of test year Miscellaneous Expense to the Adjusted Trial Balance.

(Q) Depreciation Expense. In its application, Western Rockcastle Water proposed an adjustment to decrease Depreciation Expense by \$74,695,¹²⁹ to adjust the

¹²⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment K.

service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Utilities* (NARUC Study).¹³⁰ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.¹³¹ Upon examination, Commission Staff agrees with Western Rockcastle Water's methodology to adjust depreciation expense. Commission Staff's calculation differed from Western Rockcastle Water's in three sub-categories: Office Equipment and Furniture; Equipment; and Water Lines.

For Office Equipment and Furniture, Western Rockcastle Water calculated additional depreciation expense in order to fully depreciate several assets; however, with the 22.5-year useful life, the assets are not fully depreciated. Therefore, Commission Staff calculated the depreciation using the 22.5-year service life. Western Rockcastle Water grouped several different categories together and classified them as Equipment, Commission Staff broke these assets into the individual categories and depreciated them over the individual recommended useful lives.

Western Rockcastle Water also grouped several different asset categories and classified them as Water Lines. Commission Staff separated these assets into the

¹³⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment K.

¹³¹ 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.

individual categories, and Commission Staff disagreed with the service lives Western Rockcastle Water assigned to a few of the assets and depreciated them over the NARUC recommended useful lives.

Commission Staff calculated a Depreciation Expense of \$258,405, as shown in the following table, which is \$67,868 less than the reported test year amount of \$326,273 and \$6,827 less than Western Rockcastle Water's proposed \$74,695 decrease to Depreciation Expense.

Asset Class	NARUC Recommended Service Lives	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Structures and Improvements	35 - 40	\$ 45,696	\$ 23	\$ 45,719
Equipment				
Tools, Shop, & Garage Equipment	15 - 20	9,535	(5,081)	4,454
Communication Equipment	10	8,107	(976)	7,131
Transportation Equipment	7	2,583	592	3,175
Pumping Equipment	20	1,721	(1,087)	634
Office Equipment and Furniture	20 - 25	1,273	(384)	889
Transportation Equipment	7	14,173	(2,437)	11,736
Water Lines				
Transmission & Distribution Mains	50 - 75	176,049	(62,541)	113,508
Reservoirs and Tanks	30 - 60	17,986	(7,880)	10,106
Services	30 - 50	615	(231)	384
Radio Read Meters	20	48,535	12,134	60,669
Total Depreciation Expense		<u>\$ 326,273</u>	<u>(67,868)</u>	<u>\$ 258,405</u>
Western Rockcastle Water's Proposed Adjustment ()			74,695	
Difference between Commission Staff's and Western Rockcastle Water's Adjustment			<u>\$ 6,827</u>	

Commission Staff recommends the Commission accept Commission Staff's \$67,868 decrease to Depreciation Expense to reflect the annualization of Depreciation expense at the recommended NARUC midpoint service lives. Additionally, Commission Staff made an adjustment to depreciate the labor and material costs related to water installations, as discussed below.

(R) Depreciation – Capitalization of Water Tap Labor. In its application, Western Rockcastle Water proposed an adjustment to increase Depreciation Expense by

\$1,785,¹³² to account for the depreciation of the new meters installed in 2023.¹³³ As discussed in the expenses related to water installations adjustment above, the expenses associated with the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.¹³⁴ Western Rockcastle Water confirmed that it had not capitalized the labor costs of the water meter¹³⁵ or the costs of materials used.¹³⁶ Since Western Rockcastle Water uses Radio Read meters, Commission Staff depreciated the new water taps over a 20 year service life. Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$1,785 to account for the Tap Fee labor and materials, as shown below:

Desciption	Salaries and Wages	Materials and Supplies
Test Year Water Connections Expense	\$ 10,710	\$ 24,990
Divided by: Recommended Useful Life	20	20
Capitalized Expenses	<u>\$ 535</u>	<u>1,250</u>
Total Depreciation Adjustment		<u>\$ 1,785</u>

Commission Staff recommends the Commission accept Western Rockcastle Water's proposed \$1,785 increase to Depreciation Expense, to account for the proper

¹³² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment K.

¹³³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Reference, Adjustment K.

¹³⁴ USoA, Accounting Instruction 19 and 33.

¹³⁵ Western Rockcastle Water's Response to Staff's First Request, Item 14.

¹³⁶ Western Rockcastle Water's Response to Staff's First Request, Item 15.

accounting methodology, since the USoA requires the assets to be depreciated over their estimated useful lives.

(S) Taxes Other Than Income – Federal Insurance Contribution Act (FICA). In its application, Western Rockcastle Water proposed an adjustment to increase Taxes Other Than Income by \$4,778,¹³⁷ to reflect changes in salaries and wages.¹³⁸ As explained in Salaries and Wages – Employees adjustment above, Commission Staff calculated Western Rockcastle Water’s total Salaries and Wages – Employees of \$397,026. Western Rockcastle Water also reported Salaries and Wages – Officers of \$36,000.¹³⁹ Therefore, Commission Staff calculated an increase of \$4,778 to Taxes Other Than Income, which is the same as proposed by Western Rockcastle Water, as shown in the following table.

Description	Amount
Salaries and Wages - Employees	\$ 397,026
Salaries and Wages - Officers	36,000
Total Salaries and Wages	433,026
Times: 7.65 Percent FICA Rate	7.65%
Pro Forma Payroll Taxes	33,126
Test Year Payroll Taxes ()	(28,348)
Commission Staff's Adjustment	<u>\$ 4,778</u>

Commission Staff recommends the Commission approve Western Rockcastle Water’s adjustment to increase Taxes other than Income by \$4,778, because it is a known

¹³⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment L.

¹³⁸ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment L.

¹³⁹ Western Rockcastle Water’s Response to Staff’s First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf.

and measurable change that is a direct result of changes to Salaries and Wages – Employees.

(T) Gain/Loss on Sale of Equipment. In its application, Western Rockcastle Water included \$22,000 in Nonutility Income – Gains on Sale of Equipment.¹⁴⁰ Commission Staff reviewed the 2024 General Ledger and identified the transaction did not reoccur.¹⁴¹ Since the sale of equipment is a non-recurring event, Commission Staff made an adjustment to decrease Gain/Loss on Sale of Equipment by \$22,000.

Commission Staff recommends the Commission accept Commission Staff's \$22,000 decrease to Gain/Loss on Sale of Equipment since the same of equipment will not recur and is, therefore, not representative of the normal course of business.

OVERALL REVENUE REQUIREMENT

In the application, Western Rockcastle Water proposed to calculate the Revenue Requirement using the Operating Ratio methodology.¹⁴² The Operating Ratio methodology¹⁴³ is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. The Operating Ratio is a method to provide the utility with the necessary working capital to operate effectively. Commission Staff has historically

¹⁴⁰ Western Rockcastle Water's Response to Staff's Second Request, Item 9.

¹⁴¹ Western Rockcastle Water's Response to Staff's First Request, Item 1a, 1.a_2024_General_Ledger.xlsx, Equipment Sales, Row 8988 and 8989.

¹⁴² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Revenue Requirements Table.

¹⁴³ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

used an Operating Ratio of 88 percent to calculate the additional working capital. If the Commission used the Debt Service Recovery method, Western Rockcastle Water would only recover \$241,394 for the Debt Service and Additional Working Capital, as shown in the following table.

Description	Amount
Average Annual Principal and Interest Payments	\$ 201,162
Additional Working Capital at 20%	40,232
Total Additional Working Capital	<u>\$ 241,394</u>

In contrast, the Operating Ratio method provides \$319,735 additional working capital. Commission Staff believes that, due to Western Rockcastle Water's low debt service requirement, the rate increase from the debt service coverage method would not provide Western Rockcastle Water with sufficient working capital to operate effectively to provide adequate, efficient, and reasonable service. Western Rockcastle Water currently has eight outstanding debts, United States Department of Agriculture's (USDA) Rural Development (RD) Loans.¹⁴⁴ Commission Staff used the Operating Ratio method to calculate the revenue requirement for Western Rockcastle Water.

¹⁴⁴ Case No. 1996-00125, *The Application of The Western Rockcastle Water Association for the Issuance of a Certificate of Convenience and Necessity*. Case No. 1998-00615, *The Application of Western Rockcastle Water Association, Inc., of Rockcastle, Lincoln and Pulaski Counties, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023*. Case No. 2000-00526, *The Application of Western Rockcastle Water Association, Inc., of Rockcastle, Lincoln and Pulaski Counties, Kentucky for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to The Provisions of KRS 278.023*. Case No. 2003-00496, *The Application of Western Rockcastle Water Association, Inc., of Rockcastle, Lincoln and Pulaski Counties, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023*. Case No. 2006-00358, *The Application of Western Rockcastle Water Association, Inc., of Rockcastle, Lincoln, Garrard and Pulaski Counties, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023*. Case No. 2009-00497, *Application of Western Rockcastle Water Association, Inc. of Rockcastle, Lincoln, Garrard and Pulaski Counties, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023*. Case No. 2014-000071, *Application of Western Rockcastle Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct and Finance a Project Pursuant to the Provisions of KRS 278.023*.

By applying the Operating Ratio method, Commission Staff found Western Rockcastle Water's Revenue Requirement from Rates for Service to be \$2,756,123. A revenue increase of \$306,340, or 12.50 percent, is necessary to generate the Overall Revenue Requirement of \$2,763,484.

Description	Western Rockcastle Water	
	Application	Commission Staff
Pro Forma Operating Expenses	\$ 2,171,413	\$ 2,344,723
Operating Ratio	88%	88%
Subtotal	2,467,515	2,664,458
Average Annual Interest Expense	83,804	99,026
Total Revenue Requirement	2,551,319	2,763,484
Other Operating Revenue ()	(8,969)	(4,653)
Interest Income ()	(2,708)	(2,708)
Nonutility Income- Gain on Sale of Equipment ()	(22,000)	-
Revenue Required From Rates	2,539,642	2,756,123
Normalised Revenues From Water Sales ()	(2,260,380)	(2,449,783)
Required Revenue Increase / (Decrease)	\$ 279,262	\$ 306,340
Percentage Increase / (Decrease)	12.35%	12.50%

1. Average Annual Interest and Fees Payments. As discussed above, at the time of Commission Staff's review, Western Rockcastle Water had eight outstanding RD loans. Western Rockcastle Water provided the amortization schedules for its outstanding debt.¹⁴⁵ Using the amortization tables, Commission Staff calculated the average annual

Case No. 2023-00334, *Electronic Application of Western Rockcastle Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023.*

¹⁴⁵ Application, 8_RD_Loan_Amort_Schs.pdf.

interest on a five-year average for the years 2025 through 2029. Commission Staff calculated an average Interest Expense of \$99,026 as shown in the following table.

Loan	2025 Interest	2026 Interest	2027 Interest	2028 Interest	2029 Interest	Total
91-04	\$ 8,859	\$ 13,325	\$ 7,685	\$ 7,059	\$ 6,404	\$ 43,332
91-06	20,203	22,605	18,212	17,149	16,038	94,207
91-08	11,401	16,267	10,330	9,758	9,245	57,001
91-11	13,570	10,058	12,685	12,212	11,718	60,243
91-16	4,152	2,771	3,914	3,788	3,656	18,281
91-18	19,031	11,141	18,107	17,595	17,206	83,080
91-20	14,877	12,167	14,217	13,873	13,520	68,654
RD 440-22	16,005	8,397	15,549	15,312	15,068	70,331
Total	\$ 108,098	\$ 96,731	\$ 100,699	\$ 96,746	\$ 92,855	495,129
5 Year Average						<u>\$ 99,026</u>

Commission Staff recommends the Commission approve Commission Staff's inclusion of proposed inclusion of \$90,026 to the Revenue Requirement to account for the average annual interest payments, because the OR methodology allows for the recovery of Interest payments.

Signatures

/s/ William Foley

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

/s/ Elizabeth Stefanski

Prepared by: Elizabeth Stefanski
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00001 DATED JUN 30 2025

* Denotes Rounding

Nonrecurring Charges Adjustments		
	Connection Turn-On Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$16.67 at 1.5 hours)	\$25.00	
Office Supplies	\$3.00	\$3.00
Office Labor	\$8.00	
Transportation	\$10.00	\$10.00
Misc.		
Total Revised Charge		\$13.00
Current Rate	\$45.00	
	Disconnect/Reconnect Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$16.67 at 1.5 hours)	\$25.00	
Office Supplies	\$3.00	\$3.00
Office Labor	\$8.00	
Transportation	\$10.00	\$10.00
Misc.		
Total Revised Charge		\$13.00
Current Rate	\$60.00	
	Field Collection Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$16.00 at 1.25 hours)	\$20.00	
Office Supplies		
Office Labor		
Transportation	\$10.00	\$10.00
Misc.		
Total Revised Charge		\$10.00
Current Rate	\$30.00	

	Field Collection Charge-After Hours Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$23.33 at 1.5 hours)	\$35.00	\$35.00
Office Supplies		
Office Labor		
Transportation	\$10.00	\$10.00
Misc.		
Total Revised Charge	<u>\$45.00</u>	<u>\$45.00</u>
Current Rate	\$45.00	
	Meter Test Charge Utility Revised Charge	Staff Revised Charge
Field Materials	\$25.00	\$25.00
Field Labor		
Office Supplies		
Office Labor		
Transportation		
Misc.		
Total Revised Charge	<u>\$25.00</u>	<u>\$25.00</u>
Current Rate	\$25.00	
	Return Check Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor		
Office Supplies		
Office Labor		
Transportation		
Bank Fee	\$25.00	
Total Revised Charge	<u>\$25.00</u>	<u>\$25.00</u>
Current Rate	\$25.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00001 DATED JUN 30 2025

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 Western Rockcastle Water Association, Inc. 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	\$33.84	Minimum Bill
Next	3,000 Gallons	0.00994	Per Gallon
Next	5,000 Gallons	0.00923	Per Gallon
Next	15,000 Gallons	0.00850	Per Gallon
Over	25,000 Gallons	0.00781	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$56.37	Minimum Bill
Next	5,000 Gallons	0.00923	Per Gallon
Next	15,000 Gallons	0.00850	Per Gallon
Over	25,000 Gallons	0.00781	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$101.65	Minimum Bill
Next	15,000 Gallons	0.00850	Per Gallon
Over	25,000 Gallons	0.00781	Per Gallon

2-Inch Meter

First	25,000 Gallons	\$226.52	Minimum Bill
Over	25,000 Gallons	0.00781	Per Gallon

Nonrecurring Charges

Connection Turn-On	\$13.00
Disconnect/Reconnect Charge	\$13.00
Field Collection Charge	\$10.00
5/8 x 3/4 Inch Water Tap On	\$1,387.00
All Other Meters	Actual Cost

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