

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)	

ORDER

On February 3, 2025,¹ Western Rockcastle Water Association (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 9,² Western Rockcastle Water used the calendar year ended December 31, 2023, as the basis for its application. The application was filed following the Commission's Order in Case No. 2023-00334, which required Western Rockcastle Water to apply an adjustment of its base rates for its water division by October 31, 2024.³ Western Rockcastle Water filed a request for 45-day extension;⁴ however, the Commission denied the request and ordered Western Rockcastle Water to file an

¹ 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.

² 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.

³ 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.

⁴ Case No. 2023-00334, (filed Oct. 31, 2024), Request for an Extension of Time to File a ARF Application.

application for a rate adjustment immediately.⁵ 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 and a 2023 financing approval,⁶ in conjunction with an application for a Certificate of Public Convenience and Necessity, pursuant to KRS 278.023.

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 Staff additional time to draft the Commission Staff's Report,⁸ in part, due to Western Rockcastle Water's pending Purchase Water Adjustment (PWA) application.⁹ The PWA application was approved prior to issuance of the Commission Staff's Report and reflected in Commission Staff's recommended revenue increase.¹⁰

⁵ Case No. 2023-00334, Dec 30, 2024 Order.

⁶ Case No. 2023-00334, Nov. 22, 2023 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.

⁸ Order (Ky. PSC June 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 Case No. 2025-00144, June 10, 2025 final Order.

In its application, Western Rockcastle Water requested an overall revenue requirement of \$2,551,319 to increase its annual water sales revenue by \$279,262, or 12.35 percent.¹¹

On June 30, 2025, Commission Staff issued Commission Staff's Report¹² summarizing its recommendations regarding Western Rockcastle Water's requested rate adjustment. In its report, Commission Staff found that Western Rockcastle Water's adjusted test year operations support a total revenue requirement of \$2,763,484, an increase of \$306,340 or 12.50 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.¹³ In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board of retail customers to calculate its recommended water rates.¹⁴

On July 3, 2025, Western Rockcastle Water filed its response to Commission Staff's Report and provided four comments.¹⁵ First, Western Rockcastle Water restated Commission Staff's recommended revenue increase of \$306,340 and requested the Commission authorize the assessment of the water rates contained in Appendix A of Commission Staff's Report.¹⁶ Second, Western Rockcastle Water stated that it did not agree with the removal of certain labor expenses from nonrecurring charges, but it did not

¹¹ Application, Attachment 4, 4_SAO_With_attachments.pdf, Revenue Requirements Table.

¹² Commission Staff's Report (issued June 30, 2025).

¹³ Commission Staff's Report at 7.

¹⁴ Commission Staff's Report at 7–8.

¹⁵ Western Rockcastle Water's Response to Staff Report (filed July 30, 2025).

¹⁶ Western Rockcastle Water's Response to Staff Report, Item 1.

wish to contest that adjustment.¹⁷ Third, Western Rockcastle Water concurred with the remainder of the findings in Commission Staff's Report.¹⁸ Fourth, Western Rockcastle Water waived its right to request an informal conference or hearing.¹⁹ The case now stands submitted for a decision.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."²⁰ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

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

¹⁷ Western Rockcastle Water's Response to Staff Report, Item 2.

¹⁸ Western Rockcastle Water's Response to Staff Report, Item 3.

¹⁹ Western Rockcastle Water's Response to Staff Report, Item 4.

²⁰ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

service to approximately 4,372 residential customers in Garrard, Madison, Pulaski, and Rockcastle counties, Kentucky.²¹

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2023 Annual Report, Western Rockcastle Water reported a water loss of 75.9627 percent.²² 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.²³ 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, eventually providing corrected information to the Commission.²⁴ Additionally, in the application, Western Rockcastle Water's billing analysis stated the amount of water sold in 2023 was 310,053,400 gallons;²⁵ however, in the monthly water reports submitted to the case record,²⁶ Western Rockcastle Water revised the total amount sold during 2023, to 261,231,500 gallons.²⁷ Using the revised test year gallons purchased and the revised gallons sold for calendar year 2023, Western Rockcastle Water revised the test-year

²¹ *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.

²² 2023 Annual Report at 57–58.

²³ Western Rockcastle Water's Response to Staff's Second Request, Item 14.

²⁴ Western Rockcastle Water's Revised Response to Staff's Second Request, Item 1.

²⁵ Application, Attachment 5, 5.a_Current_Billing_Analysis_CY_Rates.pdf.

²⁶ Western Rockcastle Water's Response to Staff's Second Request, Item 14.

²⁷ 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.

water loss percentage from 75.9627 percent to 16.7989 percent.²⁸ Commission Staff reviewed Western Rockcastle Water's water loss reports from 2019 through 2023 as shown in the following table which demonstrates that Western Rockcastle Water has a history of inconsistent water loss.²⁹

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.³⁰ 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

²⁸ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 14.

²⁹ *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.

³⁰ 807 KAR 5:066, Section 6(3).

water loss not only unnecessarily costs customer's money, in some situations it can undermine the system's ability to reliably serve its customers.

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	\$ 181,390	\$ 15,631	\$ 197,021

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	\$ 19,424	\$ 1,674	\$ 21,098

TEST PERIOD

The calendar year ended December 31, 2023, was used as the test year to determine the reasonableness of Western Rockcastle Water's proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Western Rockcastle Water's pro forma income statement as follows:

Description	Test Year	Total Adjustments	Commission Staff's Pro Forma
Total Operating Revenues	\$ 2,184,578	\$ 269,858	\$ 2,454,436
Total Operating Expenses ()	(2,369,471)	24,748	(2,344,723)
Net Operating Income	(184,893)	294,606	109,713
Interest Income	2,708	-	2,708
Gain (Loss) on Sale of Equipment	22,000	(22,000)	-
Income Available to Service Debt	\$ (160,185)	\$ 272,606	\$ 112,421

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Western Rockcastle Water proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff recommended additional adjustments. As noted above, Western Rockcastle Water objected to certain adjustments set forth in Commission Staff's Report but did not wish to contest those adjustments. The Commission accepts the recommendations contained in the Commission Staff's Report with no further modifications. The following is the Commission's complete pro forma:

Description	Test Year	Total Adjustments	Commission Staff's Pro Forma	Commission's Adjustments	Commission Approved Pro Forma
Operating Revenues					
Metered Retail Sales	\$ 2,070,082	\$ (98,855)			
		206,303			
		82,850			
		189,403	\$ 2,449,783	-	\$ 2,449,783
Other Revenues					
Forfeited Discounts		6,986			
		(2,931)	4,055	-	4,055
Miscellaneous Service Revenues	114,496	89,885			
		(204,381)			
		598	598	-	598
Other Water Revenues		1,983			
		(1,983)	-		
Total Operating Revenues	2,184,578	269,858	2,454,436	-	2,454,436
Operation and Maintenance					
Salaries and Wages - Employees	400,648	-			
		(3,622)			
		(10,710)	386,316	-	386,316
Salaries and Wages - Officers	36,000	-	36,000	-	36,000
Employee Benefits	214,458	(3,000)			
		(26,205)			
		(46,840)	138,413	-	138,413
Employee Pensions	10,089	1,822	11,911	-	11,911
Purchased Water	936,927	142,852			
		(19,424)	1,060,355	-	1,060,355
Purchased Power	93,046	(1,674)	91,372	-	91,372
Materials and Supplies	73,206	(24,990)	48,216	-	48,216
Contractual Services - Accounting	26,200	-	26,200	-	26,200
Contractual Services - Legal	7,800	-	7,800	-	7,800
Insurance - Vehicle	42,086	-	42,086	-	42,086
Insurance - General Liability	4,192	-	4,192	-	4,192
Insurance - Worker's Compensation	10,630	-	10,630	-	10,630
Bad Debt Expense		20,701	20,701	-	20,701
Miscellaneous	159,567	7,647	167,214	-	167,214
Total	2,014,849	36,557	2,051,406	-	2,051,406
Depreciation Expense	326,274	(67,868)			
		1,785	260,191	-	260,191
Taxes Other Than Income	28,348	4,778	33,126	-	33,126
Total Operating Expenses	2,369,471	(24,748)	2,344,723	-	2,344,723
Net Operating Income	(184,893)	294,606	109,713	-	109,713
Interest Income	2,708	-	2,708	-	2,708
Gain (Loss) on Sale of Equipment	22,000	(22,000)	-	-	-
Income Available to Service Debt	\$ (160,185)	\$ 272,606	\$ 112,421	\$ -	\$ 112,421

Reconciliation of the 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 \$6,986³¹ to

³¹ Application, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment A.

reconcile the 2023 Annual Report to the 2023 Audit.³² 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 adjustment.³³ Western Rockcastle Water provided a table with the detailed adjustments in an amended Statement of Adjusted Operations.³⁴ 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.³⁵ 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.³⁶ 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 \$1,983.³⁷

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

³³ 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.

³⁴ Western Rockcastle Water's Response to Staff's First Request, 4_Revised_SAO_With_Attachments.pdf.

³⁵ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf, References, Adjustment A.

³⁶ 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.

³⁷ Commission Staff's Report at 12.

Commission Staff recommended 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.³⁸ The corresponding increases are addressed further below in subsequent adjustments.

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. Western Rockcastle Water's Metered Retail Sales should be decreased by \$98,855, and Forfeited Discounts increased by \$6,986, Miscellaneous Service Revenues increased by \$89,885, and Other Water Revenues increased by \$1,983 to reflect the proper accounting of non-metered retail sales income to the correct USoA categories.

Billing Analysis. Western Rockcastle Water reported \$2,070,082 from metered retail sales in its test year.³⁹ As described above in the Reconciliation of the 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 \$1,971,227.⁴⁰ Western Rockcastle Water also provided an updated billing analysis, which reflected a normalized revenue of \$2,177,530 using the test year rates.⁴¹ In its application, Western Rockcastle

³⁸ Commission Staff's Report at 11–13.

³⁹ 2023 Annual Report at 49.

⁴⁰ 2023 Audit Report at 4.

⁴¹ Western Rockcastle Water's Revised Responses to Staff's Second Request, 3_WRWA_Rate__Model_Revised.xlsx, Tab BA CY 2023 Rates.

Water proposed an increase to Total Retail Metered Sales of \$206,303.⁴² The billing analysis provided by Western Rockcastle Water requires an increase of \$206,303 to normalize retail water sales revenue from its corrected water sales of \$1,971,227.⁴³ Commission Staff recommended accepting Western Rockcastle Water's proposed increase of \$206,303⁴⁴ to Retail Metered Sales to normalize water service revenues to the amounts indicated in its billing analysis.⁴⁵

The Commission finds that the adjustment and the normalized revenue for retail water sales are known and measurable amounts, and the adjustment to pro forma Operating Revenues is reasonable and should be accepted.

Retail Metered Sales. On November 22, 2023, Western Rockcastle Water increased its water service rates as approved by the Commission in Case No. 2023-00334.⁴⁶ 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 2023 test year and rates approved on November 22, 2023.⁴⁷ The evidence in the case demonstrates that this is a known and measurable adjustment. On June 10, 2025, the Commission approved an additional water service rate increase

⁴² Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment C.

⁴³ Western Rockcastle Water's Updated Rate Model, (filed May 14, 2025), 3_WRWA_Rate__Model_Revised.xlsx, Tab BA CY 2023 Rates.

⁴⁴ Western Rockcastle Water's Updated Rate Model, 3_WRWA_Rate__Model_Revised.xlsx, Tab SAO-Op Ratio.

⁴⁵ Commission Staff's Report at 13 – 14.

⁴⁶ Case No. 2023-00334, Nov. 22, 2023 Order, Appendix.

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

pursuant to Western Rockcastle Water's filing of a purchased water adjustment application (PWA) case.⁴⁸ The difference between the normalized revenue as calculated by Western Rockcastle Water and the revenue based on the June 10, 2025 approved rates, in the PWA final Order, is an increase to revenue of \$189,403, as shown in the table below.

Meter Size	Bills	Gallons Sold	Revenue
5/8 inch	52171	304,303,600	3,260,997.67
1 inch	124	5,749,800	43,822.51
1.5 inch	0	0	0.00
2 inch	0	0	0.00
Totals	52,295	310,053,400	\$3,304,820.18
LESS: Billing Adjustments			(\$855,037.00)
Normalized Billing Analysis			\$2,449,783
LESS: Current BA Total before PWA			<u>\$ (2,260,380)</u>
Increase from PWA rates			\$189,403.18

Commission Staff recommended 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. 2025-00144.⁴⁹

The Commission finds that Commission Staff's recommended adjustment is reasonable and should be accepted. The adjustment to metered sales is a known and measurable change reflected in the evidence provided in the record.

⁴⁸ Case No. 2025-00144, June 10, 2025 Order.

⁴⁹ Commission Staff's Report at 14.

Forfeited Discounts. In the application, Western Rockcastle Water reported \$0 for the test year Forfeited Discounts.⁵⁰ As discussed in the Reconciliation of the Audit Adjustment, Western Rockcastle Water subsequently proposed an adjustment to increase Forfeited Discounts by \$6,986⁵¹ to reclassify a portion of the total Revenues reported in its 2023 audit and to reconcile the 2023 Annual Report to the 2023 Audit.⁵² Commission Staff reviewed the 2023 Trial Balance and determined that the \$6,986 refers to the account titled Penalties.⁵³ Account 400b, Penalties, does not include late fees, but instead consists of some of Western Rockcastle Water's Miscellaneous Service Revenues.⁵⁴ Western Rockcastle Water could not explain why these accounts were combined and reported as forfeited discounts.⁵⁵ However, Western Rockcastle Water confirmed that it does charge late fees,⁵⁶ and during the test year, it recorded \$4,055 from 994 customers.⁵⁷ Western Rockcastle Water stated that the late fees were erroneously reported in the 'Revenues from Water Sales' account.⁵⁸ Including the increase of \$6,986

⁵⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

⁵¹ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, Adjustment A.

⁵² Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, References, Adjustment A.

⁵³ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf.

⁵⁴ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf.

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

⁵⁶ Western Rockcastle Water's Response to Staff's Second Request, Item 11b.

⁵⁷ Western Rockcastle Water's Response to Staff's Second Request, Item 11b.

⁵⁸ Western Rockcastle Water's Response to Staff's Second Request, Item 11c.

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

Commission Staff recommended 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.⁵⁹

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. Western Rockcastle Water's Forfeited Discounts should be decreased by \$2,931 to reflect the amount of late fees collected by Western Rockcastle Water.

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 \$89,885⁶⁰ to reclassify a portion of the total Revenues reported in its 2023 audit and to reconcile the 2023 Annual Report to the 2023 Audit.⁶¹ In its revised responses to Staff's Second Request, Western Rockcastle Water proposed an additional adjustment to decrease Miscellaneous Service Revenues by \$204,381⁶² to reflect the removal of Kentucky Infrastructure Authority (KIA) grants that it received from the Rockcastle County Fiscal Court to fund construction

⁵⁹ Commission Staff's Report at 15–16.

⁶⁰ 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.

⁶¹ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, References, Adjustment A.

⁶² 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.

projects.⁶³ Commission Staff reviewed the General Ledger and confirmed that the \$204,381 is recorded as Grant Income.⁶⁴ Since the \$204,381 is grant funds and not recurring revenue generated Western Rockcastle Water, the funding should have been 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.⁶⁵

Commission Staff recommended 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.⁶⁶

The Commission finds Western Rockcastle Water's adjustments should be accepted. Western Rockcastle Water's Miscellaneous Service Revenues should be decreased by \$204,381 to reflect the proper accounting of Grant Income to the correct USoA category.

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 correctly reporting the nonrecurring revenue as Miscellaneous Service

⁶³ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, References, Adjustment E.

⁶⁴ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf.

⁶⁵ USoA, Accounting Instruction, Balance Sheet Accounts, Account 271. Contributions in Aid of Construction.

⁶⁶ Commission Staff's Report at 16–17.

Revenue.⁶⁷ Commission Staff reviewed the 2023 Trial Balance,⁶⁸ responses from data requests⁶⁹, and the cost justification sheets⁷⁰ for the nonrecurring charges. Western Rockcastle Water provided detailed information about the number of occurrences and the amount collected for the nonrecurring charges.⁷¹ Western Rockcastle Water's data indicates that, in the test year, \$2,363 was collected in Miscellaneous Service Revenue from nonrecurring charges.⁷² Nonrecurring charges were adjusted by removing Field Labor Costs and removing 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 was 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>

The Commission finds that the Commission Staff's recommendation should be accepted, as labor expenses resulting from work performed during normal business hours should not be recovered through nonrecurring charges. The Commission finds that

⁶⁷ Commission Staff's Report at 17.

⁶⁸ Western Rockcastle Water's Response to Staff's First Request, Item 1c, 1.c_2023_Trial_Balance_Annual_Report_Recon.pdf.

⁶⁹ Western Rockcastle Water's Response to Item 20 of Staff's First Request, (filed May 29, 2025), 20_Nonrecurring_Charge_Detail.pdf.

⁷⁰ Western Rockcastle Water's Additional Response to Staff's First Request, (filed Apr. 9, 2025), Item 21_Non-Recurring_Charge_Cost_Justification.pdf.

⁷¹ Western Rockcastle Water's Additional Response to Staff's First Request, Item 21_Non-Recurring_Charge_Cost_Justification.pdf.

⁷² Western Rockcastle Water's Response to Item 20 of Staff's First Request, 20_Nonrecurring_Charge_Detail.pdf.

charges should be directly related to the actual cost incurred to provide the service to be considered reasonable.⁷³ Only the marginal cost related to the service should be recovered through a nonrecurring charge for service provided by current employees during normal working hours.⁷⁴ Thus, the Commission finds that Commission Staff's recommendation is reasonable, the revised nonrecurring charges as described in Appendix A to be reasonable, and that Western Rockcastle Water's Miscellaneous Service Revenues should be decreased by \$1,765 because only the incremental cost related to the service should be recovered for service provided by current employees during normal business hours.

Other Water Revenues. As discussed in the Reconciliation of the Audit Adjustment, Western Rockcastle Water proposed an adjustment to increase Other Water Revenues by \$1,983.⁷⁵ Specifically, in its revised response to Commission Staff's Second Request, Western Rockcastle Water proposed an increase to Other Water Revenues of \$1,983⁷⁶ to reclassify a portion of the total revenues reported in its 2023 audit to reconcile the 2023 Annual Report to the 2023 Audit.⁷⁷ Commission Staff reviewed the Adjusted Trial Balance and determined the Miscellaneous Revenues were composed

⁷³ Case No. 2024-00203, *Electronic Application of South Logan Water Association, Inc for An Alternative Rate Filing Pursuant to 807 KAR 5:076* (Ky. PSC May 28, 2025), final Order at 9.

⁷⁴ Case No. 2024-00203, May 28, 2025 final Order at 9.

⁷⁵ 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.

⁷⁶ 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.

⁷⁷ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, Adjustment A.

of account 4005 – KACO Refund of \$1,540,⁷⁸ account 4022 – Reimbursement for a job of (\$147),⁷⁹ and account 4019 – Miscellaneous Income – Other of \$590.⁸⁰ Commission Staff noted that, since the KACO amount is a refund and the 4022 account is a reimbursement, the amounts were not revenues.⁸¹ Commission Staff also recommended that \$590 of Miscellaneous Income-Other should be considered to represent unusual transactions, not expected to reoccur, and therefore, should be removed from the test year.⁸² 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 recommended the Commission accept Commission Staff's adjustment to decrease Other Water Revenues by \$1,983, since the amounts reported

⁷⁸ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf, Account 4005 – KACO refund.

⁷⁹ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf., account 4022 – Reimbursement for job.

⁸⁰ Western Rockcastle Water's Response to Staff's First Request, Item 1b, 1.b_2023_Trial_Balance.pdf, account 4019 – Miscellaneous income – other.

⁸¹ Commission Staff's Report at 18–19.

⁸² Commission Staff's Report at 18–19.

are should not have been reported as revenues or were unusual, nonrecurring transactions.⁸³

The Commission finds that Commission Staff's \$1,983 decrease to Western Rockcastle Water's Other Water Revenues should be approved because refunds, reimbursements, and unusual transactions not expected to reoccur are not indicative of standard utility operations and should not be included in the Pro Forma – Other Water Revenues amount.

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 \$3,000,⁸⁴ to correct the misclassification of Employee bonuses in the Employee Pension and Benefits account.⁸⁵ Commission Staff agreed 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.⁸⁶ Western Rockcastle Water confirmed that the Bonus represents a Christmas bonus that it gave to each employee.⁸⁷

⁸³ Commission Staff's Report at 18–19.

⁸⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment B.

⁸⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment B.

⁸⁶ USoA, Accounting Instruction, Balance Sheet Accounts, Account 601. Salaries and Wages - Employees.

⁸⁷ Western Rockcastle Water's Response to Staff's First Request, Item 6.

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.⁸⁸ 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.⁸⁹

As a creature of statute, a water district created pursuant to KRS Chapter 74 may expend funds only in keeping with its statutory purpose, or express statutory authorization.⁹⁰

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 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.⁹¹

Western Rockcastle Water did not provide 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 recommended that the bonus payments be excluded from the pro forma Salaries and Wages – Employees.⁹²

⁸⁸ 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.

⁸⁹ OAG 92-43 (Mar 19, 1992).

⁹⁰ OAG 92-43 (Mar 19, 1992).

⁹¹ 1956 OAG 36,219.

⁹² Commission Staff's Report at 19–21.

Commission Staff recommended 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.⁹³ Commission Staff also recommended the Commission deny the inclusion of \$3,000 of Christmas bonuses in Employee Salaries and Wages as discussed above.⁹⁴

The Commission finds that Commission Staff's recommended adjustment is reasonable and should be accepted. Western Rockcastle Water's Salaries and Wages – Employees should be reduced by \$3,000, because a Christmas bonus is not a direct expenditure for Western Rockcastle Water's purpose to furnish adequate, efficient, and reasonable service. The Commission has consistently found cause to remove the recovery for bonuses that are nonrecurring transactions, including one-time annual performance incentives that are not tied in a formal policy to operational performance of the utility, and are not likely to occur subsequent to the test year.⁹⁵

Salaries and Wages – Employees. In its application, Western Rockcastle Water proposed an adjustment to decrease Salaries and Wages – Employees by \$622,⁹⁶ due to changes in the staffing levels.⁹⁷ Western Rockcastle Water lost two employees; filling

⁹³ Commission Staff's Report at 19–21.

⁹⁴ Commission Staff's Report at 19–21.

⁹⁵ Case No. 2023-00338, *Electronic Application of Rattlesnake Ridge Water District for A Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC July 12, 2024), final Order at 17–18; and 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), final Order at 12.

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

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

one position in 2023, and expressed no plans to fill the remaining position.⁹⁸ Western Rockcastle Water provided the test year employee list,⁹⁹ test year total hours worked,¹⁰⁰ current wage rates,¹⁰¹ and a current employee list.¹⁰²

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	18,620		\$ 371,719	897		\$ 25,307	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							\$ (3,000)

⁹⁸ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4_Revised_SAO_With_Attachments.pdf, Adjustment F.

⁹⁹ Western Rockcastle Water's Response to Staff's First Request, Item 5, 5_Employee_Salaries_Wages_and_Benefits.xlsx, 2023 Tab, Column G.

¹⁰⁰ 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.

¹⁰¹ Western Rockcastle Water's Response to Staff's First Request, Item 5, 5_Employee_Salaries_Wages_and_Benefits.xlsx, Pro Forma Tab, Column S.

¹⁰² 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 recommended 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.¹⁰³

The Commission finds that Commission Staff's recommended adjustment should be accepted. Western Rockcastle Water's Salaries and Wages- Employees should be decreased by \$3,622 because the adjustment to Salaries and Wages – Employees described above is a known and measurable change reflected in the normalization of test year hours at current wages for current employees.

Expenses Related to Meter Installations. In its application, Western Rockcastle Water proposed an adjustment to decrease Salaries and Wages – Employees by \$10,710,¹⁰⁴ and Materials and Supplies by \$24,990,¹⁰⁵ to account for tap fee expenses that were included as part of these expenses during the test year.¹⁰⁶ The USoA requires that costs, such as tap fee expenses, be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.¹⁰⁷ During the test year, Western Rockcastle

¹⁰³ Commission Staff's Report at 19–21.

¹⁰⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment G.

¹⁰⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment G.

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

¹⁰⁷ USoA, Accounting Instruction 19 and 33.

Water installed 51 new water connections¹⁰⁸ and reported collecting \$35,700.¹⁰⁹ Therefore, Commission Staff agreed with Western Rockcastle Water's proposed adjustments, as shown in the following table.¹¹⁰

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.¹¹¹

Commission Staff recommended the Commission accept Western Rockcastle Water's proposed adjustments to decrease Salaries and Wages – Employees by \$10,710 and Materials and Supplies by \$24,990 because they reflect the proper accounting for water connection expenses according to the USoA.¹¹²

The Commission finds that Western Rockcastle Water's adjustment is reasonable and should be accepted. Western Rockcastle Water's Salaries and Wages – Employees should be reduced by \$10,710, and Materials and Supplies reduced by \$24,990, with a corresponding adjustment to test-year depreciation as shown in Capitalization of Water

¹⁰⁸ Western Rockcastle Water's Response to Staff's First Request, Item 14a.

¹⁰⁹ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf, References, Adjustment G.

¹¹⁰ Commission Staff's Report at 23–24.

¹¹¹ Commission Staff's Report at 24.

¹¹² Commission Staff's Report at 23–24.

Tap Labor because the USoA requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives.

Employee Benefits – Insurance Premiums. Western Rockcastle Water pays 100 percent of the cost of the single health insurance plan for each employee.¹¹³ In its application, Western Rockcastle Water proposed several adjustments to Employee Benefits involving insurance premiums, (1) a decrease of \$46,205¹¹⁴ to account for a decrease in insurance premiums due to staffing changes,¹¹⁵ (2) a decrease of \$47,526¹¹⁶ due to a reduction in employer compensation to a level consistent with the Bureau of Labor Statistics' National average for an employer's share of health insurance premiums.¹¹⁷

As discussed above, Western Rockcastle Water currently has nine full-time employees, two elected not to participate in the insurance provided, leaving seven participants.¹¹⁸ Western Rockcastle Water provided the most recent copies of its health, vision, and dental insurance invoices.¹¹⁹ Calculating the total current premiums of

¹¹³ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment I.

¹¹⁴ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment H.

¹¹⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment H.

¹¹⁶ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment I.

¹¹⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment I.

¹¹⁸ Western Rockcastle Water's Response to Staff's First Request, Item 7a, 7.a.2025_Employee_Insurance_Invoice_Redacted.pdf.

¹¹⁹ Western Rockcastle Water's Response to Staff's First Request, Item 7a, 7.a.2025_Employee_Insurance_Invoice_Redacted.pdf.

\$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 further down in this section.

Upon review of Western Rockcastle Water's proposed adjustment, Commission Staff agreed with Western Rockcastle Water's methodology but calculated a different amount.¹²⁰ Western Rockcastle Water used 79 percent for employee-only coverage and 66 percent for family coverage.¹²¹ However, given that updated Bureau of Labor Statistics' survey contribution average amount for 2025 was published in September 2024, Commission Staff recognized that using an updated average of 80 percent for employee-only coverage¹²² and 68 percent for family coverage¹²³ would allow for Western Rockcastle Water's rates to reflect the most up-to-date average contribution amounts.¹²⁴ 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.

¹²⁰ Commission Staff's Report, at 25.

¹²¹ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf, References, Adjustment I.

¹²² 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>).

¹²³ 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>).

¹²⁴ 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>).

Additionally, Western Rockcastle Water proposed reducing dental insurance premiums by 40 percent.¹²⁵ 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,¹²⁶ which is shown in the calculation below. As previously addressed, Western Rockcastle Water provided the most recent copy of its health insurance invoice.¹²⁷ 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.

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>

¹²⁵ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf, References, Adjustment I.

¹²⁶ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), Order at 9-10, and The Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

¹²⁷ Western Rockcastle Water's Response to Staff's First Request, Item 7a, 7.a.2025_Employee_Insurance_Invoice_Redacted.pdf.

Commission Staff recommended the Commission accept Western Rockcastle Water adjustments, as amended by Commission Staff of a \$26,205 (K1) and \$46,840 (K2), and decrease Employee Benefits to reflect the change in average contribution to insurance premiums, to reflect the reduction of employer contributions, as it matches average benefit levels documented in published surveys of employee benefits, and Western Rockcastle Water provided insufficient evidence that employer contributions in excess of these amounts were appropriate or necessary to attract and retain employees as part of an overall benefit package.¹²⁸

The Commission finds Commission Staff's recommended adjustment should be accepted. Western Rockcastle Water's Employee Benefits are decreased by \$26,205 and \$46,840, because those adjustments reflect are known and measurable changes consistent with average total compensation packages for market and geographic competitiveness that ensure the development of a fair, just and reasonable rate.¹²⁹ In addition, the adjustment reflects the current expenses based on recent invoices contained in the record. There was nothing introduced in the record that indicates that 100 percent employer contribution amount is necessary or appropriate to retain employees as part of an overall benefit plan.

Employee Benefits – Retirement. Western Rockcastle Water provides its employees with a 401(k) benefit.¹³⁰ In its application, Western Rockcastle Water

¹²⁸ Commission Staff's Report at 24–27.

¹²⁹ Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019) at 8–12.

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

proposed an adjustment to increase Employee Pensions and Benefits Expense by \$1,912¹³¹ to reflect changes in salaries and wages and participation in the 401K plan.¹³² Western Rockcastle Water contributes a 100 percent match up to a three percent salary level for all full-time employees.¹³³

Utilizing the total wages above of \$397,026 calculated in the Salaries and Wages – Employee adjustment and Western Rockcastle Water’s three 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	<u>\$ (90)</u>

Commission Staff recommended the Commission accept Commission Staff's adjustment of a \$1,822 increase to Employee Pensions, because it is a known and

¹³¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment J.

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

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

measurable change that reflects the rise in employee retirement expense due to a change in Salaries and Wages – Employees.¹³⁴

The Commission finds that Commission Staff's recommended adjustments should be accepted. Western Rockcastle Water's Employee Benefits – Retirement should be decreased by \$90 because the known and measurable change, described above, is a direct result of changes to Salaries and Wages – Employees.

Purchased Water Expense. Western Rockcastle Water reported \$936,927 for the test year Purchased Water Expense.¹³⁵ Western Rockcastle Water purchases water from Mount Vernon Water Works (Mount Vernon), Southern Madison Water District (Southern Madison District), and Broadhead Water Works (Broadhead).¹³⁶ Subsequent to the test-year, Mount Vernon increased its wholesale water rate to Western Rockcastle Water.¹³⁷ As a result of the increase in the wholesale rates Mount Vernon and Broadhead both currently charge \$3.40 per 1,000 gallons.¹³⁸ Southern Madison District currently charges a declining balance tiered rate.¹³⁹ Commission Staff calculated Purchased Water

¹³⁴ Commission Staff's Report at 27–28.

¹³⁵ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf.

¹³⁶ 2023 Annual Report at 54.

¹³⁷ Case No. 2025-00144, Application, Application_Increase_rates_per_Purchase_Water_Adjustment.pdf, Exhibit B2, Notice.

¹³⁸ Western Rockcastle Water's Response to Staff's First Request, Item 11, 11_Current_Water_Cost_Rates.pdf.

¹³⁹ Western Rockcastle Water's Response to Staff's First Request, Item 11, 11_Current_Water_Cost_Rates.pdf.

Expense using the test-year gallons purchased from each vendor,¹⁴⁰ 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	Kentucky River 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 recommended the Commission accept Commission Staff's \$142,852 increase to Purchase Water Expense as this is a known and measurable change that reflects the normalization of water purchased during the test year to current rates charged.¹⁴¹

The Commission finds that Commission Staff's recommended adjustments should be accepted. Western Rockcastle Water's Purchased Water Expense should be increased by \$142,852, to reflect the normalization of water purchased during the test year to Mount Vernon's, South Madison District's and Broadhead's current water rates.

¹⁴⁰ 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.

¹⁴¹ Commission Staff's Report at 28–30.

Excess Water Loss. During the test year, Western Rockcastle Water had a revised water loss of 16.7989 percent.¹⁴² Subsequent to filing the application, Western Rockcastle Water proposed adjustments to decrease Purchased Water Expense by \$16,855¹⁴³ and Purchased Power expense by \$1,674.¹⁴⁴ 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.¹⁴⁵ 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 recommended the Commission accept Commission Staff's \$19,424 decrease to Purchase Water Expense and a \$1,674 decrease to Purchased

¹⁴² Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, Excess Water Loss Tab, Cell H32.

¹⁴³ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, SAO-OP Ratio Tab, Adjustment M.

¹⁴⁴ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, SAO-OP Ratio Tab, Adjustment M.

¹⁴⁵ 807 KAR 5:066, Section 6(3).

Power Expense, since 807 KAR 5:066, Section 6(3), limits the excess water loss recovery in rates to 15 percent.¹⁴⁶

The Commission finds Commission Staff's adjustments should be accepted. Western Rockcastle Water's Purchased Water Expense should be decreased by \$19,424 and its Purchased Power Expense should be decreased by \$1,674 because of Commission regulation 807 KAR 5:066, Section 6(3), limiting water loss to 15 percent for ratemaking purposes.

Bad Debt Expense. In its Application, Western Rockcastle Water reported \$0 for Bad Debt Expense.¹⁴⁷ Subsequent to filing the application, Western Rockcastle Water proposed an adjustment to increase Bad Debt Expense by \$20,701,¹⁴⁸ 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,¹⁴⁹ 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 recommended 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.¹⁵⁰

¹⁴⁶ Commission Staff's Report at 30–31.

¹⁴⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

¹⁴⁸ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, SAO-OP Ratio Tab, Adjustment N.

¹⁴⁹ USoA, Water Operation and Maintenance Accounts, Account 670 Bad Debt.

¹⁵⁰ Commission Staff's Report at 31.

The Commission finds Commission Staff's adjustments should be accepted. Western Rockcastle Water's Bad Debt Expense should be increased by \$20,701 to reflect the inclusion of bad debts to the correct USoA category.

Miscellaneous Expense. In its Application, Western Rockcastle Water reported a test year Miscellaneous Expense of \$159,567.¹⁵¹ Subsequently, Western Rockcastle Water proposed an adjustment to increase Miscellaneous Expense by \$7,647,¹⁵² to reconcile the reclassification of \$20,701 of Bad Debt Expense and \$106,206 of Interest Expense,¹⁵³ as well as reversing a \$134,553.66 prior year Adjustment.¹⁵⁴ Commission Staff reviewed the Miscellaneous Expense Adjusted Trial Balance and the sub-account balances¹⁵⁵ 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.

¹⁵¹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations.

¹⁵² Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, SAO-OP Ratio Tab, Adjustment N.

¹⁵³ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, Miscellaneous Tab, Column K.

¹⁵⁴ Western Rockcastle Water's Revised Responses to Staff's Second Request, Item 1, 3_WRWA_Rate_Model, Miscellaneous Tab, Row 36.

¹⁵⁵ 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 recommended the Commission accept Commission Staff's \$7,647 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.¹⁵⁶

The Commission finds that Commission Staff's adjustment should be accepted. Western Rockcastle Water's Miscellaneous Expense should be increased by \$7,647 to

¹⁵⁶ Commission Staff's Report at 31–33.

reflect the reclassification of Bad Debt Expense and Interest Expense, as well as the reconciliation of test year Miscellaneous Expense to the Adjusted Trial Balance.

Depreciation Expense. In its application, Western Rockcastle Water proposed an adjustment to decrease Depreciation Expense by \$74,695,¹⁵⁷ to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Utilities* (NARUC Study).¹⁵⁸ 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.¹⁵⁹ Upon examination, Commission Staff agreed with Western Rockcastle Water's methodology to adjust depreciation expense.¹⁶⁰ Commission Staff's calculation differed from Western Rockcastle Water's in three sub-categories: Office Equipment and Furniture; Equipment; and Water Lines.¹⁶¹

For Office Equipment and Furniture, Western Rockcastle Water calculated additional depreciation expense in order to fully depreciate several assets; however, with

¹⁵⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment K.

¹⁵⁸ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment K.

¹⁵⁹ 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.

¹⁶⁰ Commission Staff's Report at 34.

¹⁶¹ Commission Staff's Report at 34.

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.¹⁶² 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.¹⁶³

Western Rockcastle Water also grouped several different asset categories and classified them as Water Lines.¹⁶⁴ Commission Staff separated these assets into the 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.¹⁶⁵

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.¹⁶⁶

¹⁶² Commission Staff's Report at 34.

¹⁶³ Commission Staff's Report at 34.

¹⁶⁴ Commission Staff's Report at 34.

¹⁶⁵ Commission Staff's Report at 34-35.

¹⁶⁶ Commission Staff's Report at 35.

Asset Class	NARUC		Depreciation Adjustment	Pro Forma Depreciation
	Recommended Service Lives	Test Year 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>	(67,868)	<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 recommended 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.¹⁶⁷ Additionally, Commission Staff made an adjustment to depreciate the labor and material costs related to water installations, as discussed below.¹⁶⁸

The Commission finds that Commission Staff's adjustment to be reasonable. Western Rockcastle Water's Depreciation Expense should be decreased by \$67,868 because the known and measurable change is a direct result of aligning Western Rockcastle Water's capital asset's useful lives with the NARUC Study's recommended useful lives.

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

¹⁶⁷ Commission Staff's Report at 35.

¹⁶⁸ Commission Staff's Report at 33–35.

\$1,785,¹⁶⁹ to account for the depreciation of the new meters installed in 2023.¹⁷⁰ 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.¹⁷¹ Western Rockcastle Water confirmed that it had not capitalized the labor costs of the water meter¹⁷² or the costs of materials used.¹⁷³ Since Western Rockcastle Water uses Radio Read meters, Commission Staff depreciated the new water taps over a 20 year service life.¹⁷⁴ 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 recommended the Commission accept Western Rockcastle Water's proposed \$1,785 increase to Depreciation Expense, to account for the proper

¹⁶⁹ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment K.

¹⁷⁰ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Reference, Adjustment K.

¹⁷¹ USoA, Accounting Instruction 19 and 33.

¹⁷² Western Rockcastle Water's Response to Staff's First Request, Item 14.

¹⁷³ Western Rockcastle Water's Response to Staff's First Request, Item 15.

¹⁷⁴ Commission Staff's Report at 36.

accounting methodology, since the USoA requires the assets to be depreciated over their estimated useful lives.¹⁷⁵

The Commission finds that Western Rockcastle Water's adjustments should be accepted as reasonable. Western Rockcastle Water's Depreciation Expense should be increased by \$1,785 because the known and measurable amount reflects USoA requirement for assets to be depreciated over their estimated useful lives.

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 \$4,778,¹⁷⁶ to reflect changes in salaries and wages.¹⁷⁷ 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 \$36,000.¹⁷⁸ 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.¹⁷⁹

¹⁷⁵ Commission Staff's Report at 35–37.

¹⁷⁶ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, Adjustment L.

¹⁷⁷ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Schedule of Adjusted Operations, References, Adjustment L.

¹⁷⁸ Western Rockcastle Water's Response to Staff's First Request, Item 4, 4-Revised_SAO_With_Attachments.pdf.

¹⁷⁹ Commission Staff's Report at 37.

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 recommended the Commission approve Western Rockcastle Water's adjustment to increase Taxes other than Income by \$4,778, because it is a known and measurable change that is a direct result of changes to Salaries and Wages – Employees.¹⁸⁰

The Commission finds that Western Rockcastle Water's adjustment should be accepted as reasonable. Western Rockcastle Water's Taxes Other Than Income should be increased by \$4,778 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees.

Gain/Loss on Sale of Equipment. In its application, Western Rockcastle Water included \$22,000 in Nonutility Income – Gains on Sale of Equipment.¹⁸¹ Commission Staff reviewed the 2024 General Ledger and determined the transaction did not reoccur.¹⁸² Since the sale of equipment is a nonrecurring event, Commission Staff made an adjustment to decrease Gain/Loss on Sale of Equipment by \$22,000.¹⁸³

¹⁸⁰ Commission Staff's Report, at 35–37.

¹⁸¹ Western Rockcastle Water's Response to Staff's Second Request, Item 9.

¹⁸² Western Rockcastle Water's Response to Staff's First Request, Item 1a, 1.a_2024_General_Ledger.xlsx, Equipment Sales, Row 8988 and 8989.

¹⁸³ Commission Staff's Report at 38.

Commission Staff recommended 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.¹⁸⁴

The Commission finds that Commission Staff's \$22,000 decrease to Western Rockcastle Water's Gain/Loss on Sale of Equipment should be accepted as reasonable because the sale of utility equipment is not expected to reoccur and is not indicative of standard utility operations and should not be included in the Pro Forma Revenue Requirement calculations.

SUMMARY OF ADJUSTMENTS

Based upon the Commission's findings discussed above, the following table summarizes Western Rockcastle Water's adjusted pro forma:

Description	Commission Staff's Pro Forma	Commission's Adjustments	Commission Approved Pro Forma
Total Operating Revenues	\$ 2,454,436	\$ -	\$ 2,454,436
Total Operating Expenses ()	(2,344,723)	-	(2,344,723)
Net Operating Income	109,713	-	109,713
Interest Income	2,708	-	2,708
Gain (Loss) on Sale of Equipment	-	-	-
Income Available to Service Debt	<u>\$ 112,421</u>	<u>\$ -</u>	<u>\$ 112,421</u>

REVENUE REQUIREMENT

Western Rockcastle District proposed to use the Operating Ratio method to calculate its Revenue Requirement.¹⁸⁵ The Commission has historically used an Operating Ratio (OR) Method to calculate the revenue requirement for water districts or

¹⁸⁴ Commission Staff's Report at 38.

¹⁸⁵ Application, Attachment 4, 4_SAO_With_Attachments.pdf, Revenue Requirements Table.

associations with little to no outstanding long-term debt.¹⁸⁶ Commission Staff reported that 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.¹⁸⁷

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

The Operating Ratio method provides \$319,735 in additional working capital. Commission Staff was of the opinion that, due to Western Rockcastle Water's lower 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.¹⁸⁸ Therefore, the Commission determined that the Operating Ratio was more suitable than the Debt Service Coverage method to provide Western Rockcastle Water sufficient working capital to maintain financial stability. Western Rockcastle Water currently has eight outstanding debts,

¹⁸⁶ Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Dec. 22, 2023).

¹⁸⁷ Commission Staff's Report at 38–39.

¹⁸⁸ Commission Staff's Report at 32–34.

United States Department of Agriculture's (USDA) Rural Development (RD) Loans.¹⁸⁹

Commission Staff recommended using the Operating Ratio method to calculate the revenue requirement for Western Rockcastle Water.¹⁹⁰

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. After reviewing the evidence provided, the Commission finds that the application of the Operating Ratio Method is appropriate.

¹⁸⁹ 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*. 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*.

¹⁹⁰ Commission Staff's Report at 38–40.

Description	Commission Staff	Commission Approved
Pro Forma Operating Expenses	\$ 2,344,723	\$ 2,344,723
Operating Ratio	88%	88%
Subtotal	2,664,458	2,664,458
Average Annual Interest Expense	99,026	99,026
Total Revenue Requirement	2,763,484	2,763,484
Other Operating Revenue ()	(4,653)	(4,653)
Interest Income ()	(2,708)	(2,708)
Nonutility Income- Gain on Sale of Equipment ()	-	-
Revenue Required From Rates	2,756,123	2,756,123
Normalized Revenues From Water Sales ()	(2,449,783)	(2,449,783)
Required Revenue Increase / (Decrease)	\$ 306,340	\$ 306,340
Percentage Increase / (Decrease)	12.50%	12.50%

Average Annual Interest and Fees Payments. At the time of Commission Staff's review, Western Rockcastle Water currently has eight outstanding debts. Therefore, Commission Staff included the average annual interest on a five-year average for the years 2025 through 2027. 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						\$ 99,026

The Commission finds Commission Staff's calculated Average Interest and Fees Payments of \$99,026 should be included in Western Rockcastle Water's Revenue

Requirement because the Operating Ratio methodology allows for the recovery of the interest and Fees payments.

RATE DESIGN

Western Rockcastle Water proposed to increase its monthly retail and wholesale water service rates by approximately 12.35 percent across the board, in its application. 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.¹⁹¹ 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.¹⁹²

Commission Staff followed the across-the-board method proposed by Western Rockcastle Water, using its current rate design and applying the necessary increase across the board. Commission Staff allocated the \$306,340 revenue increase across the board to Western Rockcastle Water's monthly retail water service rates.

The Commission accepts Commission Staff's recommendation and finds that the allocation is reasonable. The rates set forth 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 Water Sales, an approximate 12.50 percent increase. These rates will increase the monthly

¹⁹¹ 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.

¹⁹² Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

water bill of a typical residential customer using approximately 5,833 gallons by \$4.94, or 12.48 percent, from \$39.49 to \$44.43.

Nonrecurring Charges and Meter Connection Charges. The Commission finds that the Commission Staff's recommendations to remove labor expenses resulting from work performed during normal business hours so they are not recovered through nonrecurring charges to be reasonable.¹⁹³ To be considered reasonable and be recovered, charges should be directly related to the actual cost incurred to provide the service. Accordingly, only the marginal cost related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. For the reasons discussed above, the estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges, as proposed by Commission Staff.

Thus, the Commission finds that Commission Staff's recommendation is reasonable; the revised nonrecurring charges as described in Appendix A to be reasonable; Commission Staff's calculated Pro Forma revenue from Nonrecurring Charges of \$598 as shown in the table in the Miscellaneous Service Revenue section above, as well as Commission Staff's proposed adjustment of (\$1,765) to Miscellaneous Service Revenues to match the test year to the Pro Forma amount of \$2,363 previously mentioned are reasonable, because only the incremental cost related to the service should be recovered for service provided during normal business hours.

¹⁹³ Case No. 2023-00090, *Electronic Application of Henry County Water District #2 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2023); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 4, 2024); Case No. 2023-00090, *Electronic Application of Kirksville Water Association Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024).

The Commission finds that the cost justification information¹⁹⁴ shown in Appendix A provided by Western Rockcastle Water supports the adjustments. The table below shows the current and revised nonrecurring charges.¹⁹⁵ Nonrecurring charges that were not adjusted in this case are not listed below.

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

Additionally, Western Rockcastle Water provided updated cost justification information for the Meter Connection Charges.¹⁹⁶ Commission Staff reviewed the information provided by Western Rockcastle Water and recommended that the Commission increase the Tap On charges as shown in the table below, because the higher rates are based on known and measurable adjustments provided in the supporting documentation.¹⁹⁷ The Commission has reviewed the information pertaining to Meter Connection Charges and finds that the increase is reasonable and should be accepted as it is supported by actual cost information provided by Western Rockcastle Water.

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

¹⁹⁴ 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_Justifications.pdf.

¹⁹⁵ Only Nonrecurring Charges revised by Commission Staff are listed in the table above.

¹⁹⁶ Western Rockcastle Water's Response to Staff's First Request, Item 22_Tap_Fee_Cost_Justifications.

¹⁹⁷ Commission Staff's Report at 9–10.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report, are supported by the evidence of record and are reasonable. By applying the OR Method to Western Rockcastle Water's pro forma operations results in an 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.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Western Rockcastle Water are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Western Rockcastle Water on or after the date of this Order.
4. Within 20 days of the date of service of this Order, Western Rockcastle Water shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:

 *RP*
Executive Director



APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00001 DATED AUG 12 2025

* Denotes Rounding

Nonrecurring Charges Adjustments		
	Connection Turn-On Utility Revised Charge	Commission 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		<u>\$13.00</u>
Current Rate	\$45.00	
	Disconnect/Reconnect Utility Revised Charge	Commission 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		<u>\$13.00</u>
Current Rate	\$60.00	
	Field Collection Charge Utility Revised Charge	Commission 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		<u>\$10.00</u>
Current Rate	\$30.00	

	Field Collection Charge-After Hours Utility Revised Charge	Commission 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	Commission 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	Commission 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 AUG 12 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

*Robert K. Miller
Straightline Kentucky LLC
113 North Birchwood Ave.
Louisville, KY 40206

*Mark Frost
110 Woodford Place
#1
Harrodsburg, KY 40330

*Western Rockcastle Water Association, Inc.
371 New Brodhead Road
P. O. Box 627
Mt. Vernon, KY 40456

*Paula DeBorde
Manager
Western Rockcastle Water Association, Inc.
P. O. Box 627
Mt. Vernon, KY 40456