

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH)	CASE NO.
MCLEAN COUNTY WATER DISTRICT FOR AN)	2025-00009
ALTERNATIVE RATE FILING ADJUSTMENT)	

ORDER

On June 17, 2025,¹ North McLean County Water District (North McLean District) 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 North McLean District used the calendar year ended December 31, 2024, as the basis for its application.³ North McLean District's last base rate increase, filed pursuant to the alternative rate filing procedure, was in Case No. 2020-00238.⁴ Since that matter, North McLean District has only adjusted its rates pursuant to purchased water adjustments.

¹ North McLean District tendered its application on May 21, 2025. By letter dated May 27, 2025, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on June 17, 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 Remediation of Deficiencies, ARF_APPLICATION.pdf at 3, paragraph 9.

⁴ Case No. 2020-00238, *Electronic Application of North McLean County Water District for an Alternative Rate Adjustment* (Ky. PSC Jan. 27, 2021), final Order.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated July 11, 2025.⁵ North McLean District timely responded to two requests for information from Commission Staff (Staff).⁶

In its application, North McLean District requested an overall revenue requirement of \$1,365,764 to increase its annual water sales revenue by \$53,095, or 4.04 percent.⁷

On November 6, 2025, Staff issued its report (Staff's Report)⁸ summarizing its recommendations regarding North McLean District's requested rate adjustment. In its report, Staff found that North McLean District's adjusted test-year operations support a total revenue requirement of \$1,193,038 and that a \$68,349, or 5.58 percent⁹ revenue decrease to generate the required revenue from water sales of \$1,156,543. However, due to operational cost increases and the current rate of inflation, instead of evenly decreasing across North McLean District's service rates, Staff recommended maintaining North McLean District's current rates unchanged.¹⁰

On November 13, 2025, North McLean District filed its response to Staff's Report and provided one comment.¹¹ North McLean District's comment to Staff's Report corrected that North McLean District purchases its water from McLean County Regional

⁵ Order (Ky. PSC July 11, 2025).

⁶ North McLean District's Response to Staff's First Request for Information (Staff's First Request), (filed Aug. 1, 2025). North McLean District's Response to Staff's Second Request for Information (Staff's Second Request) (filed Sept. 19, 2025).

⁷ Remediation of Deficiencies, Revenue_Requirement_Calculation.pdf, Revenue Requirement Calculation – Operating Ratio Method Table.

⁸ Staff's Report (issued Nov. 6, 2025).

⁹ Staff's Report at 5.

¹⁰ Staff's Report at 6.

¹¹ North McLean District's Acceptance Letter with one correction (filed Nov. 13, 2025).

Water Commission and from Daviess County Water District (Daviess District), rather than from the city of Harrodsburg, South Anderson Water District, and the city of Danville as was incorrectly noted in Staff's Report.¹² Aside from this one exception regarding North McLean District's purchased water vendors, North McLean District agreed with the rest of the findings in Staff's Report.¹³ The case now stands submitted for a decision by the Commission.

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."¹⁴ 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

North McLean District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to

¹² North McLean District's Acceptance Letter with one correction.

¹³ North McLean District's Acceptance Letter with one correction.

¹⁴ *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).

approximately 1,274 residential customers, 33 commercial customers and 4 industrial customers that reside in McLean County, Kentucky.¹⁵

UNACCOUNTED-FOR WATER LOSS

Over the last five years, North McLean District reported an average water loss of 20.0969 percent¹⁶ as shown in the following table:

Year	Water Loss Percentage
2020	16.5438%
2021	16.5381%
2022	20.3753%
2023	22.9134%
2024	24.1139%
Average	<u>20.0969%</u>

North McLean District purchases 100 percent of its water from McLean County Regional Water Commission, Daviess District, and Ohio County Water District (Ohio District).¹⁷ 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. North McLean District's water loss for the test year was 24.1139 percent.¹⁸ North McLean

¹⁵ *Annual Report of North McLean District to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report) at 49 and 12.

¹⁶ *Annual Report of North McLean District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 57–58; *Annual Report of North McLean District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 57–58; *Annual Report of North McLean District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 57–58; *Annual Report of North McLean District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 57; and 2024 Annual Report at 57–58.

¹⁷ 2023 Annual Report at 54 and 57.

¹⁸ 2024 Annual Report at 57–58.

District reported test-year purchased water expense of \$510,460.¹⁹ However, as discussed in the Purchased Water Expense adjustment below, Staff adjusted the amount to current rates which results in a Purchased Water Expense of \$530,675. The table below shows that the 2024 total annual cost of water loss to North McLean District is \$131,204, while the annual cost of water loss in excess of 15 percent is \$49,588.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 530,675	\$ 13,424	\$ 544,099
Water Loss Percent	24.1139%	24.1139%	24.1139%
Total Water Loss	<u>\$ 127,967</u>	<u>\$ 3,237</u>	<u>\$ 131,204</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 530,675	\$ 13,424	\$ 544,099
Water Loss in Excess of 15%	9.1139%	9.1139%	9.1139%
Disallowed Water Loss	<u>\$ 48,365</u>	<u>\$ 1,223</u>	<u>\$ 49,588</u>

TEST PERIOD

The calendar year ended December 31, 2024, was used as the test year to determine the reasonableness of North McLean District's proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Staff's Report summarized North McLean District's pro forma income statement as follows:

¹⁹ Application (Remediation of Deficiencies), Schedule_of_Adjusted_Operations.pdf.

Description	2024 Test Year	Total Adjustments	Staff's Pro Forma
Total Operating Revenues	\$ 1,069,634	\$ 177,406	\$ 1,247,040
Total Operating Expenses ()	(1,092,654)	42,781	(1,049,873)
Net Operating Income	(23,020)	220,187	197,167
Interest Income	14,347	-	14,347
Income Available to Service Debt	\$ (8,673)	\$ 220,187	\$ 211,514

REVIEW OF STAFF'S RECOMMENDATIONS

In its application, North McLean District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In Staff's Report, Staff recommended additional adjustments. The Commission accepts the recommendations contained in Staff's Report with one modification. The Commission modified Staff's adjustment for Salaries and Wages – Officers. As addressed below, two of North McLean District's commissioners were initially appointed before the statute requiring training was placed into effect.²⁰ Therefore, they were not subject to it. The Commission, allowing for the recovery of the two commissioners' salaries, results in an increase to the revenue requirement of \$5,400. The following is the Commission's complete pro forma:

²⁰ KRS 74.020 (Amended 2010 Ky. Acts ch. 18, sec. 1, effective July 15, 2010).

Description	Test Year	Total Adjustments	Staff's Pro Forma	Commission Adjustments	Commission Approved Pro Forma
Operating Revenues					
Metered Retail Sales	\$ 1,047,597	\$ 177,295	\$ 1,224,892	\$ -	\$ 1,224,892
Other Water Revenues	22,037	111	22,148		22,148
Total Operating Revenues	1,069,634	177,406	1,247,040	-	1,247,040
Operation and Maintenance					
Salaries and Wages - Employees	282,075	(21,252)			
		(3,285)	257,538	-	257,538
Salaries and Wages - Officers	-	6,300	6,300	5,400	11,700
Employee Benefits - Insurance	20,792	773	21,565	-	21,565
Employee Benefits - Retirement (IRA)	-	13,041	13,041	-	13,041
Purchased Water	510,460	20,215			
		(48,365)	482,310	-	482,310
Purchased Power	13,424	(1,223)	12,201	-	12,201
Materials and Supplies	35,441	(7,665)	27,776	-	27,776
Contractual Services	27,686	-	27,686	-	27,686
Transportation Expense	17,562	-	17,562	-	17,562
Insurance	15,689	-	15,689	-	15,689
Bad Debt Expense	3,033	-	3,033	-	3,033
Miscellaneous	57,636	-	57,636	-	57,636
Total	983,798	(41,461)	942,337	5,400	947,737
Depreciation Expense	85,836	991			
		274	87,101	-	87,101
Taxes Other Than Income	23,020	(2,585)	20,435	-	20,435
Total Operating Expenses	1,092,654	(42,781)	1,049,873	5,400	1,055,273
Net Operating Income	(23,020)	220,187	197,167	(5,400)	191,767
Interest Income	14,347	-	14,347	-	14,347
Income Available to Service Debt	\$ (8,673)	\$ 220,187	\$ 211,514	\$ (5,400)	\$ 206,114

Billing Analysis. North McLean District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application.²¹ North McLean District reported total metered water sales revenue of \$1,047,597 for the test year in its Schedule of Adjusted Operations (SAO).²² North McLean District's SAO erroneously calculated a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$2,272,489 and proposed an

²¹ Application (Remediation of Deficiencies), Attachment 3, Current and Proposed Rates Tables.

²² Application (Remediation of Deficiencies), Attachment 4, Schedule of Adjusted Operations.

adjustment to decrease test-year water sales revenue by \$1,224,892 to reflect the revenues from water rates generated by the billing analysis.²³ North McLean District stated that the adjustment of \$1,224,892 to Metered Water Sales was the result of a Purchased Water Adjustment (PWA) that was approved in March 2025²⁴ that impacted the current rates.²⁵ Later, North McLean District stated that the \$1,224,892 proposed adjustment set forth in its SAO should have been the pro forma Metered Water Sales, not the proposed adjustment.²⁶ As a result, Staff calculated an adjustment of \$177,295 to Meter Retail Sales to normalize the revenue from the billing analysis based on the usage during the test year using the rates authorized in North McLean District's tariff.²⁷

Staff recommended the Commission accept its calculated increase of \$177,295 to Metered Water Sales because the amount meets the rate making criteria of being known and measurable.²⁸

The Commission finds that Staff's adjustment is reasonable and should be accepted. This adjustment reflects verifiable usage and revenue data that were evaluated and normalized using the information provided in the record.

²³ Application (Remediation of Deficiencies), Attachment 4, Schedule of Adjusted Operations.

²⁴ Case No. 2025-00026, *Electronic Purchased Water Adjustment Filing of North Mclean County Water* (Ky. PSC Mar. 18, 2025), final Order.

²⁵ North McLean District's Response to Staff's First Request, Item 2, 2. Explanation of Remediation of Deficiencies.pdf.

²⁶ North McLean District's Response to Staff's Second Request, Item 3.

²⁷ Staff's Report at 10–11.

²⁸ Staff's Report at 10–11.

Other Water Revenues. During the test year, North McLean District recorded \$22,037 for Other Water Revenues.²⁹ Other Water Revenues is composed of three subparts; Forfeited Discounts, Nonrecurring Charges, and Other Water Revenues.

Forfeited Discounts (Late Fees). In the application, North McLean District recorded \$16,987 for Forfeited Discounts, as part of Other Water Revenues.³⁰ North McLean District reports all late fees collected as Penalties.³¹ Penalties are also called Forfeited Discounts.³² North McLean District reported 2,849 occurrences and \$17,619 collected.³³ In order to account for all the late fees collected, Staff increased Forfeited Discounts by \$632, for a pro forma of \$17,619.³⁴

Nonrecurring Charges. As discussed further in the Nonrecurring Charges section of the Rate Design section below, Staff determined that pro forma Nonrecurring Charges should be \$3,318.³⁵ The adjustments to the Nonrecurring Charges result in an increase in Other Water Revenues of \$592 as shown in the Other Water Revenues table.

²⁹ Application (Remediation of Deficiencies), Attachment 4, Schedule of Adjusted Operations (filed June 17, 2025).

³⁰ North McLean District's Response to Staff's First Request, Item 17.

³¹ North McLean District's Response to Staff's First Request, Item 17.

³² North McLean District's Response to Staff's First Request, Item 1b, 1.b.Trial_Balance_Dec_2024, Sheet1 Tab, Account 410 Penalty-Forfeited Disc.

³³ North McLean District's Response to Staff's First Request, Item 17.

³⁴ Staff's Report at 12.

³⁵ Staff's Report at 12–13.

Charge	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Disconnect Charge	79	\$ 17.25	\$ 21.00	\$ 296	\$ 1,659
Disconnect Charge (After Hours)	0	\$ 54.06	\$ 67.00	-	-
Re-connection Charge	79	\$ 17.25	\$ 21.00	296	1,659
Re-connection Charge (After Hours)	0	\$ 54.06	\$ 67.00	-	-
Service Call/Investigation	0	\$ 8.64	\$ 11.00	-	-
Service Call/Investigation (After Hours)	0	\$ 48.42	\$ 56.00	-	-
Cut Lock	0	\$ 48.63	\$ 51.00	-	-
Damage to Lid or Meter Equipment	0	Actual Cost	Actual Cost	-	-
Meter Relocate With or Without a Road Bore	0	Actual Cost	Actual Cost	-	-
Meter Re-Read Charge	0	\$ 20.00	\$ 11.00	-	-
Meter Test Request	0	Actual Cost	Actual Cost	-	-
Pro Forma NRC Revenue				<u>\$ 592</u>	<u>\$ 3,318</u>
Test Year NRC Revenue ()					(2,726)
Adjustment					<u>\$ 592</u>

Other Water Revenues. In its application, North McLean District included \$2,324 composed of \$1,211 for Meter Fees and \$1,113 for Reimbursements for Heaters³⁶ as part of Other Water Revenues. The \$1,113 reimbursements are unusual transactions not expected to reoccur³⁷ and are therefore not indicative of standard utility operations and should be removed as a pro forma adjustment to the test year amount resulting in a decrease to Other Water Revenues of \$1,113.

Other Water Revenues	Test Year	Utility Adjustments	Staff's Adjustments	Pro Forma
Forfeited Discounts	\$ 16,987	\$ -	\$ 632	\$ 17,619
Nonrecurring Charges	2,726	-	592	3,318
Other Water Revenues	2,324	-	(1,113)	1,211
Total Other Water Revenues	<u>\$ 22,037</u>	<u>\$ -</u>	<u>\$ 111</u>	<u>\$ 22,148</u>

³⁶ North McLean District's Response to Staff's First Request, Item 16, 16_2024_Other_Water_Revenue_Misc_Receipts.xlsx.

³⁷ North McLean District's Response to Staff's First Request, Item 16, 16_2024_Other_Water_Revenue_Misc_Receipts.xlsx.

The net effect of the above adjustments results in a pro forma Other Water Revenues of \$22,148, as shown in the preceding table, which is a net increase of \$111 to North McLean District's test year Other Water Revenues of \$22,037.

Staff recommended the Commission accept its net increase of \$111 to Other Water Revenues to account for all late fees collected during the test year; the increase for adjusting nonrecurring charges; as well as the decrease to Other Water Revenues.³⁸

The Commission finds that Staff's \$632 increase to Forfeited Discounts is reasonable and should be accepted in order to reconcile the recorded late fees to the actual amount collected during the test year. Additionally, the Commission finds that Staff's increase of \$592 to Other Water Revenues due to adjusting Nonrecurring Charges is reasonable and should be accepted as it reflects the current expenses incurred by the charges and the amount meets the ratemaking criteria of being know and measurable. Increasing the Nonrecurring Charges in line with North McLean District's actual cost will result in a fair, just or reasonable rate. The Commission also finds that Staff's \$1,113 decrease to Other Water Revenues is reasonable and should be accepted because unusual transactions not expected to reoccur are not indicative of standard utility operations and should be removed as a pro forma adjustment to the test year amount resulting in a Pro Forma – Other Water Revenues amount for a net increase of \$111.

³⁸ Staff's Report at 11 – 14.

Salaries and Wages Employees. In its application, North McLean District recorded test year Salaries and Wages – Employees expense of \$282,075.³⁹ North McLean District submitted its test year and current employee and wage information.⁴⁰

North McLean District included the Salaries and Wages for Commissioners⁴¹ and employee's Individual Retirement Account (IRA) contributions in the test year Salaries and Wages - Employees expense calculation.⁴² When Staff calculated the total Salaries and Wages – Employees expense it did not include the Salaries and Wages for Commissioners or employee IRA contributions in the calculated amount. Instead, the other items are calculated in separate adjustments below.

Staff calculated total Salaries and Wages – Employees of \$260,824, which is \$21,251 less than the test year Salaries and Wages – Employees of \$282,075, as shown in the table below.

Position	Regular Hours		Regular Hour Wages	Overtime Hours Worked	OT Pay Rate	Overtime Hour Wages	Total Wages Paid
	Worked	Pay Rate					
Maintenance Superintendent	2,088	\$ 30.19	\$ 63,037	397	\$ 45.29	\$ 17,980	\$ 81,017
Maintenance Worker	2,096	\$ 25.14	52,693	402	\$ 37.71	15,159	67,852
Office Secretary	2,098	\$ 29.99	62,919	39	\$ 44.99	1,755	64,674
Secretary	2,064	\$ 22.75	46,956	10	\$ 34.13	324	47,280
Total	<u>8,346</u>		<u>\$ 225,605</u>	<u>848</u>		<u>\$ 35,218</u>	260,823
Test Year ()							(282,075)
Adjustment							<u>\$ (21,252)</u>

³⁹ Application (Remediation of Deficiencies), Attachment 4, Schedule of Adjusted Operations.

⁴⁰ North McLean District's Response to Staff's First Request, Item 4, 4._Employees_Wages_2024__2025, 2025 Tab.

⁴¹ North McLean District's Response to Staff's First Request, Item 4, 4._Employees_Wages_2024__2025, 2024 Tab, rows 23–31.

⁴² North McLean District's Response to Staff's First Request, Item 4, 4._Employees_Wages_2024__2025, 2024 Tab, Column O.

Staff recommended the Commission accept its calculated decrease of \$21,252 to Salaries and Wages – Employees, as it is a known and measurable change because it reflects the normalized, test year hours at current wage rates with current employees.⁴³

Commission finds that Staff's adjustment is reasonable and should be accepted. North McLean District's Salaries and Wages – Employees should be decreased by \$21,252 because the adjustment to Salaries and Wages – Employees is a known and measurable change to reflect the actual test year hours worked at current wages for current employees.

Expenses Related to Meter Installations. The Uniform System of Accounts (USoA) requires that costs, such as tap fee expenses, be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁴⁴ During the test year, North McLean District installed seven new water connections⁴⁵ and reported collecting \$10,950,⁴⁶ as shown in the following table:

Meter	Connections	Unit Cost	Amount
5/8 x 3/4" Meter	6	\$ 1,000	\$ 6,000
1 Inch Meter	-	Actual Cost	-
All Large Meters	1	Actual Cost	4,950
Total	<u>7</u>		<u>\$ 10,950</u>

Staff made two adjustments. First it reduced Salaries and Wages – Employees by \$3,285, then reduced Materials and Supplies by \$7,665, as shown in the following table:

⁴³ Staff's Report at 14–15.

⁴⁴ USoA, Accounting Instruction 19 and 33.

⁴⁵ North McLean District's Response to Staff's First Request, Item 12a, 12._a-c.New_Tap_Installations_2024.pdf.

⁴⁶ North McLean District's Response to Staff's First Request, Item 12, 12._a-c.New_Tap_Installations_2024.pdf.

Description	Salaries and Wages	Materials and Supplies
Tap Fees Collected	\$ 10,950	\$ 10,950
Allocated Percentage	30%	70%
Total	<u>\$ (3,285)</u>	<u>\$ (7,665)</u>

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.⁴⁷

Staff recommended the Commission accept its adjustments to decrease Salaries and Wages – Employees by \$3,285 and decrease Materials and Supplies by \$7,665 because they reflect the proper accounting for water connection expenses according to the USoA.⁴⁸

The Commission finds that Staff's adjustments are reasonable and should be accepted. North McLean District's Salaries and Wages – Employees should be reduced by \$3,285, Materials and Supplies reduced by \$7,665, with a corresponding adjustment to test-year depreciation as shown in Capitalization of Water Tap Expenses because the USoA requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives.

Salaries and Wages - Officers. During the test year, North McLean District recorded its commissioners' salaries as part of Salaries and Wages – Employees.⁴⁹ However, as discussed in the Salaries and Wages – Employee adjustment, Staff did not

⁴⁷ Staff's Report at 16.

⁴⁸ Staff's Report at 15–16.

⁴⁹ North McLean District's Response to Staff's First Request, Item 4a, 4._Employee_benefit_2024__2025.xlsx.

include the Commissioner's salaries when it calculated the pro forma salaries. North McLean District's Board of Commissioners (Board) consists of five members - four are paid \$225 monthly, and the chairman is paid \$300 monthly.⁵⁰ North McLean District provided the fiscal court minutes that authorized compensation for its Board members.⁵¹ Additionally, North McLean District provided training records for two of its commissioners,⁵² but stated that Carrol Troutman, Dale Chandler, and Gary Floyd have not completed the required 12 hours of training as required by KRS 74.020(8)(a)-(b).⁵³ Because North McLean District provided no evidence that Carrol Troutman, Dale Chandler, or Gary Floyd has attended the mandatory commissioner training as required by KRS 74.020, Staff removed each of their salaries from its calculation and calculated a pro forma Salaries and Wages – Officer of \$6,300, as shown in the following table:

Commissioners	Pro Forma Salaries
Keith M. Ayer (Chairman)	\$ 3,600
Russell W. Bell	2,700
Dale Chandler	-
Gary M. Floyd	-
Carrol B. Troutman	-
Total	<u>\$ 6,300</u>

Staff recommended the Commission accept its calculated increase of \$6,300 to Salaries and Wages – Officers, since that is the normalization for the two Commissioners

⁵⁰ North McLean District's Response to Staff's Second Request, Item 1, 1._Board_Minutes.pdf at 3.

⁵¹ North McLean District's Response to Staff's Second Request, Item 1, 1._Fiscal_Court_Minutes_for_Commissioner_Compensation_c.pdf.

⁵² North McLean District's Response to Staff's First Request, item 10b, 10._b._Commissioner_Training.pdf.

⁵³ North McLean District's Response to Staff's Second Request, Item 2.

who have fulfilled the mandatory training as required by statute to qualify as a water district commissioner.⁵⁴ Staff further recommended opening a separate case to investigate the status of Carrol Troutman, Dale Chandler, and Gary Floyd as commissioners since they are currently serving as commissioners without ever attending the training as required by KRS 74.020(8)(a)-(b).⁵⁵

Upon further review, the Commission finds that Staff's adjustment should be modified. North McLean District's Salaries and Wages - Officers should include Gary Floyd's and Carrol Troutman's commissioner salaries but exclude Dale Chandler's commissioner salary.

KRS 74.020(8)(b) states:

Within twelve (12) months of initial appointment, each commissioner shall complete the program of instruction described in paragraph (a) of this subsection. Except as provided in subsection (9) of this section, any commissioner who fails to complete the program within twelve (12) months of his or her initial appointment shall forfeit his or her office and all right to act in discharge of the duties of the office. A commissioner required to attend a program under this subsection shall be reimbursed for the cost of instruction by his or her water district.

Although there are no records indicating that Gary Floyd and Carrol Troutman ever attended the initial water commissioner training as required by KRS 74.020(8)(b), both began their service as a water commissioner on behalf of North McLean District before the requirements of this statute were applicable via statutory amendment on July 15,

⁵⁴ Staff's Report at 16–18.

⁵⁵ Staff's Report at 17–18.

2010.⁵⁶ According to North McLean District's Annual Report filings with the Commission, Gary Floyd began serving as a water commissioner for North McLean District on or before the year 1993.⁵⁷ Additionally, according to the Minutes of Regular Meeting of the Board of Water Commissioners of North McLean County Water District Held March 15, 2010, Carrol Troutman began serving as a water commissioner for North McLean District on or before March 15, 2010.⁵⁸ Since both Gary M. Floyd and Carrol B. Troutman began serving as water commissioners for North McLean District before the requirements of KRS 74.020(8)(b) became effective on July 15, 2010, the Commission finds that both are in compliance with the statute. However, the Commission would encourage both water commissioners to attend a Public Service Commission-provided water training as described in KRS 74.020(8)(a) at some point in the future to enhance their understanding of their roles and duties as water commissioners.

As noted above, the Commission finds the removal of the salary of North McLean District water commissioner Dale Chandler to be appropriate at this time. According to North McLean District's Annual Report filings with the Commission, Dale Chandler was initially appointed as a water commissioner for North McLean District at some point during the year 2012.⁵⁹ Dale Chandler's initial appointment in 2012 was clearly after the requirements of KRS 74.020(8) came into effect on July 15, 2021. Because

⁵⁶ KRS 74.020 (Amended 2010 Ky. Acts ch. 18, sec. 1, effective July 15, 2010).

⁵⁷ *Annual Report of North McLean District to the Public Service Commission for the Year Ending December 31, 1993* (1993 Annual Report) at 21.

⁵⁸ North McLean District's Response to Staff's Second Request, Item 1, 1._Board_Minutes.pdf at 6-9.

⁵⁹ *Annual Report of North McLean District to the Public Service Commission for the Year Ending December 31, 2012* (2012 Annual Report) at 14.

KRS 74.020(8)(b) states that any commissioner who fails to complete the program within 12 months of his or her initial appointment forfeits his or her office and all right to act in discharge of the duties of the office, the Commission finds it appropriate that Dale Chandler's salary be removed.

Commissioners	Pro Forma Salaries
Keith M. Ayer (Chairman)	\$ 3,600
Russell W. Bell	2,700
Dale Chandler	-
Gary M. Floyd	2,700
Carrol B. Troutman	2,700
Total	11,700
Commission Calculated ()	(6,300)
Revenue Requirement increase	<u>\$ 5,400</u>

The inclusion of Gary Floyd and Carrol Troutman's salaries results in an increase to the Revenue Requirement of \$5,400.

Employee Benefits – Insurance. North McLean District pays 100 percent of the cost of the single plan insurance for each employee.⁶⁰ As discussed above, North McLean District currently has four full-time employees,⁶¹ only two of which participate in the insurance provided.⁶² North McLean District provided the most recent copies of its health insurance invoice.⁶³ Staff calculated the total current premiums for insurance

⁶⁰ North McLean District's Response to Staff's First Request, Item 5, 5._Empoyee_benefit_2024.pdf, item 1.

⁶¹ North McLean District's Response to Staff's First Request, Item 4, 4._Employees_Wages_2024__2025.xlsx, 2025 tab.

⁶² North McLean District's Response to Staff's First Request, Item 5, 5._Empoyee_benefit_2024.pdf.

⁶³ North McLean District's Response to Staff's First Request, Item 5, 5._a-b_2024_2025_Invoices.pdf.

benefits of \$21,565, which is an increase of \$773 from North McLean District's test-year amount, as shown below.

Type of Premium	Employer Contributions
Monthly Premium	1,797
Multiplied by: 12 Months	12
Total Annual Health Insurance Premium	21,565
Less: Test Year Insurance Premium ()	(20,792)
Staff's Adjustment	<u>\$ 773</u>

Staff recommended the Commission accept its calculated increase of \$773 to Employee Benefits, to normalize the current insurance premiums for the two employees who receive insurance through North McLean District.⁶⁴

The Commission finds that Staff's adjustment is reasonable and should be accepted. North McLean District's Employee Benefits – Insurance should be increased by \$773 because it reflects the current insurance premiums based on invoices contained in the record.

Employee Benefits – Retirement. North McLean District provides its employees with an IRA account,⁶⁵ and matches the amount each employee contributes into their IRA account, up to a 5 percent salary level for all full-time employees.⁶⁶

Utilizing the total wages calculated in the Salaries and Wages – Employee adjustment, North McLean District included the IRA contribution in the test-year Salaries

⁶⁴ Staff's Report at 18.

⁶⁵ North McLean District's Response to Staff's First Request, Item 5, 5._Employee_benefit_2024.pdf, item 2.

⁶⁶ North McLean District's Response to Staff's First Request, Item 5, 5._Employee_benefit_2024.pdf, item 2.

and Wages - Employee calculation.⁶⁷ Of the \$260,824 and North McLean District's 5 percent contribution rate to each IRA plan, Staff calculated a pro forma retirement contribution of \$13,041, which as shown in the following table.

Description	Amount
Salaries and Wages - Employees	\$ 260,824
Contribution Rate	5%
Total Retirement Contribution	<u>\$ 13,041</u>

Staff recommended the Commission accept its calculated increase of \$13,041 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, while also placing pensions in the correct expense category.⁶⁸

The Commission finds that Staff's adjustment is reasonable and should be accepted. North McLean District's Employee Benefits – Pensions should be increased by \$13,041 because it is a direct result of annualizing the Salaries and Wages – Employees at current contribution rates.

Purchased Water Expense. During the test year, North McLean District recorded Purchased Water expense of \$510,460.⁶⁹ As addressed in the Unaccounted for Water loss, North McLean District purchases water from the McLean Regional Water, Daviess District, and Ohio District.⁷⁰ Effective March 1, 2025, McLean Regional Water increased

⁶⁸ Staff's Report at 19.

⁶⁹ Remediation of Deficiencies, Schedule_of_Adjusted_Operations.pdf.

⁷⁰ 2024 Annual Report at 54.

its wholesale rate to North McLean District to \$0.00392 per gallon.⁷¹ North McLean District provided the current rate charged by each of its water vendors,⁷² as well as the gallons purchased from each vendor throughout the test year.⁷³ Staff calculated Purchased Water Expense using the test-year gallons purchased and the current rates, resulting in a pro forma Purchased Water Expense of \$530,675, an increase of \$20,215, as shown in the following table:

Month	McLean County Regional			Daviess District			Total
	Gallons	Unit Cost	Sub-Total	Gallons	Unit Cost	Sub-Total	
Jan-24	9,773,000	\$ 0.00392	\$ 38,310	632,000	\$ 0.00417	\$ 2,635	\$ 40,945
Feb-24	9,062,000	0.00392	35,523	397,000	0.00417	1,655	37,178
Mar-24	10,079,000	0.00392	39,510	416,000	0.00417	1,735	41,245
Apr-24	10,126,000	0.00392	39,694	558,000	0.00417	2,327	42,021
May-24	12,462,000	0.00392	48,851	398,000	0.00417	1,660	50,511
Jun-24	12,548,000	0.00392	49,188	616,000	0.00417	2,569	51,757
Jul-24	14,354,000	0.00392	56,268	573,500	0.00417	2,391	58,659
Aug-24	12,974,000	0.00392	50,858	568,000	0.00417	2,369	53,227
Sep-24	10,683,000	0.00392	41,877	495,000	0.00417	2,064	43,941
Oct-24	9,249,000	0.00392	36,256	443,000	0.00417	1,847	38,103
Nov-24	8,892,000	0.00392	34,857	258,000	0.00417	1,076	35,933
Dec-24	9,041,000	0.00392	35,441	411,000	0.00417	1,714	37,155
Total	<u>129,243,000</u>		<u>\$506,633</u>	<u>5,765,500</u>		<u>\$ 24,042</u>	530,675
Test Year Purchased Power ()							(510,460)
Purchased Water Adjustment							<u>\$ 20,215</u>

Staff recommended the Commission accept its calculated increase of \$20,215 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.⁷⁴

⁷¹ Case 2025-00026, *Electronic Purchased Water Adjustment Filing of North Mclean County Water District*, Case_no_2025-00026_PWA_North_McLean_County_Water_District.pdf, Exhibit A.

⁷² North McLean District's Response to Staff's First Request, Item 8.

⁷³ North McLean District's Response to Staff's First Request, Item 7, 7_Supporting_Documents.pdf.

⁷⁴ Staff's Report at 19–21.

The Commission finds that Staff's adjustment is reasonable and should be accepted. North McLean District's Purchased Water Expense should be increased by \$20,215 given McLean Regional Water's increase in its water rate, as a known and measurable change that reflects the normalization of water purchased during the test year to current rates charged.

Unaccounted for Water Loss. During the test year, North McLean District's Annual Report recorded water loss of 24.1139 percent.⁷⁵ As noted earlier in the Order, 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 above, Staff determined a Purchased Water Expense of \$530,675. As a result of water loss exceeding 15 percent, Staff decreased Purchased Water Expense by \$48,365, and decreased Purchased Power Expense by \$1,223, as shown in the following table:

Pro Forma Water and Power	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 530,675	\$ 13,424	\$ 544,099
Water Loss in Excess of 15%	9.1139%	9.1139%	9.1139%
Water Loss Adjustment	<u>\$ (48,365)</u>	<u>\$ (1,223)</u>	<u>\$ (49,589)</u>

Staff recommended the Commission accept its calculated decrease of \$48,365 to Purchase Water Expense and its \$1,223 decrease to Purchased Power Expense, because Commission regulation 807 KAR 5:066, Section 6(3) limits water loss to 15 percent for ratemaking purposes.⁷⁶

⁷⁵ 2024 Annual Report at 57–58.

⁷⁶ Staff's Report at 21.

The Commission finds Staff's adjustments are reasonable and should be accepted. North McLean District's Purchased Water Expense should be decreased by \$48,365 and its Purchased Power Expense should be decreased by \$1,223 because Commission regulation 807 KAR 5:066, Section 6(3) limits water loss to 15 percent for ratemaking purposes.

Depreciation Expense. During the test year, North McLean District recorded Depreciation Expense of \$85,836.⁷⁷ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the National Association of Regulatory Utility Commissioners (NARUC) Study, *Depreciation Practices for Small Water Utilities*. 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.⁷⁸ Using the NARUC Study midpoints for each asset class, Staff calculated a total depreciation expense of \$86,827, as shown in the following table, which is \$991 more than the reported test year amount of \$85,836:

⁷⁷ Remediation of Deficiencies, Schedule_of_Adjusted_Operations.pdf.

⁷⁸ 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.

Asset Class	NARUC Recommended Service Lives	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Pumping Equipment	20	\$ 2,480	\$ 2,217	\$ 4,697
Hydrants	40 - 60	836	(89)	747
Meter Installation	45	902	(96)	806
Meters	40	1,688	(148)	1,540
Radio Read Meters	20	6,401	225	6,626
Laboratory Equipoment	15 - 20	1,702	(1,057)	645
Office Furniture and Equipment	20 - 25	2,950	(1,210)	1,740
Power Operated Equipment	10 - 15	5,600	(1,123)	4,477
Structures and Improvements	35 - 40	12,023	(23)	12,000
Reservoirs and Tanks	30 - 60	4,306	299	4,605
Tools, Shop, & Garage Equipment	15 - 20	68	(10)	58
Transmission & Distribution Mains	50 - 75	44,027	783	44,810
Transportation Equipment	7	2,853	1,223	4,076
Total		\$ 85,836	\$ 991	\$ 86,827

Staff recommended the Commission accept its calculated increase of \$991 to Depreciation Expense to reflect the annualization of Depreciation Expense at the recommended NARUC midpoint service lives for capital assets with a remaining book value.⁷⁹

The Commission finds that Staff's adjustment is reasonable and should be accepted. North McLean District's Depreciation Expense should be increased by \$991 because the known and measurable change is a direct result of aligning North McLean District's capital asset's useful lives with the NARUC Study's recommended useful lives.

Capitalization of Water Tap Labor. As discussed in the Expenses Related to Meter Installations adjustment above, the expenses related to 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.⁸⁰ Staff calculated the annual

⁷⁹ Staff's Report at 21–22.

⁸⁰ USoA, Accounting Instruction 19 and 33.

depreciation amount for the test year and increased depreciation expense by \$274 to account for the Tap Fee labor and materials as shown below:

Description	Labor Expenses	Materials Expense
Test Year Water Connections Expense	\$ 3,285	\$ 7,665
Divided by: Recommended Useful Lives	40.0	40.0
Total Capitalized Expense Increase	<u>\$ 82</u>	<u>192</u>
		<u>\$ 274</u>

Staff recommended the Commission accept its calculated increase of \$274 to Depreciation Expense because the USoA requires the assets to be depreciated over their estimated useful lives.⁸¹

The Commission finds that Staff's adjustment is reasonable and should be accepted. North McLean District's Depreciation Expense should be increased by \$274 because it is a known and measurable amount which reflects USoA requirement for assets to be depreciated over their estimated useful lives.

Taxes Other Than Income – Federal Insurance Contribution Act (FICA). During the test year, North McLean District recorded Taxes Other Than Income of \$23,020.⁸² As explained above, Staff calculated North McLean District's total Salaries and Wages – Employees of \$260,823, and Salaries and Wages – Officers of \$6,300. Staff calculated a pro forma Taxes Other Than Income of \$20,435, which is \$2,585 less than the \$23,020 test year recorded by North McLean District, as shown in the following table:

⁸¹ Staff's Report at 23.

⁸² Remediation of Deficiencies, Schedule_of_Adjusted_Operations.pdf.

Description	Amount
Salaries and Wages - Employees	\$ 260,823
Salaries and Wages - Officers	6,300
Total Salaries and Wages	267,123
Times: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	20,435
Test Year Payroll Taxes ()	(23,020)
Adjustment	<u>\$ (2,585)</u>

Staff recommended the Commission approve Staff's adjustment which is a decrease of \$2,585 to Taxes Other Than Income, because it is a known and measurable change that is a direct result of changes to Salaries and Wages – Employees and Salaries and Wages – Officers.⁸³

The Commission finds that Staff's adjustment is reasonable and should be accepted. North McLean District's Taxes Other Than Income should be decreased by \$2,585 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees and Salaries and Wages - Officers.

SUMMARY OF ADJUSTMENTS

Based upon the Commission's findings discussed above, the following table summarizes North McLean District's adjusted pro forma:

Description	Staff's Pro Forma	Commission Adjustments	Commission Approved Pro Forma
Total Operating Revenues	\$ 1,247,040	\$ -	\$ 1,247,040
Total Operating Expenses ()	(1,049,873)	(5,400)	(1,055,273)
Net Operating Income	197,167	(5,400)	191,767
Interest Income	14,347	-	14,347
Income Available to Service Debt	<u>\$ 211,514</u>	<u>\$ (5,400)</u>	<u>\$ 206,114</u>

⁸³ Staff's Report at 23–24.

OVERALL REVENUE REQUIREMENT

In its application, North McLean District proposed to calculate the Revenue Requirement using the Operating Ratio (OR) methodology.⁸⁴ The OR methodology⁸⁵ 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 OR methodology is a method to provide the utility with the necessary working capital to operate effectively. An OR of 88 percent will allow North McLean District necessary working capital and revenues to cover its reasonable operating expenses to operate and provide for reasonable equity growth.

The OR methodology provides \$143,901 of additional working capital. Staff believed that, due to North McLean District's calculated debt service requirement, the Additional Working Capital from the debt service recovery method would not provide North McLean District with sufficient working capital to operate effectively to provide adequate, efficient, and reasonable service. Staff used the OR method to calculate the revenue requirement for North McLean District.⁸⁶

McLean District's required revenue from water sales is \$1,162,679 compared to the Revenue from Sales at Present Rates of \$1,224,892 which results in an excess of pro forma revenues of \$62,213, or 5.08 percent.

⁸⁴ Application, Revenue_Requirement_Calculation.pdf, Revenue Requirement Calculation Table.

⁸⁵ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

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

⁸⁶ Staff's Report at 25.

Description	Staff's Pro Forma	Commission Approved Pro Forma
Pro Forma Operating Expenses	\$ 1,049,873	\$ 1,055,273
Divided by: Operating Ratio Percentage	88%	88%
Interest Expense	-	-
Overall Revenue Requirement	1,193,038	1,199,174
Other Operating Revenue ()	(22,148)	(22,148)
Interest Income ()	(14,347)	(14,347)
Revenue Required from Rates	1,156,543	1,162,679
Revenue from Sales at Present Rates ()	(1,224,892)	(1,224,892)
Required Revenue Increase / (Decrease)	\$ (68,349)	\$ (62,213)
Percentage Increase / (Decrease)	-5.58%	-5.08%

RATE DESIGN

In its application, North McLean District proposed to increase its monthly water service rates by 4.04 percent to all its customers evenly across the board.⁸⁷ North McLean District stated that it did not consider filing a cost-of-service study (COSS) at this time considering there has been no material changes in the water system that would cause a new COSS to be prepared.⁸⁸

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 and in the absence of a COSS.⁸⁹ Staff calculated a decrease in the revenue requirement of \$68,349. The Commission's adjustments result in a revised required decrease of

⁸⁷ Application (Remediation of Deficiencies), Attachment 2, Corrected Customer Notice.

⁸⁸ North McLean District's Response to Staff's First Request, Item 14a-b.

⁸⁹ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

\$62,213. The rates presented in the table below are based upon the revenue requirement, as calculated by the Commission, and will produce sufficient revenues from water sales to recover the \$1,162,679 revenue required from rates, an approximate 5.08 percent decrease. Using these rates, the monthly water bill for a typical residential customer using approximately 4,000 gallons per month would decrease from \$43.49 to \$41.29 for a decrease of \$2.20, or approximately 5.06 percent. However, as previously discussed, due to operational cost increases and the current rate of inflation, instead of evenly decreasing across North McLean District's service rates, Staff recommended maintaining North McLean District's current rates unchanged as they appear in its tariff.

<u>Rate Comparison</u>						
All Meter Sizes			Current	Staff Calculated	Total Change	Percent Change
First	2,000	Gallons	\$ 24.69	\$ 23.45	\$ (1.24)	-5.04%
Next	8,000	Gallons	0.00940	0.00892	(0.00048)	-5.08%
Next	30,000	Gallons	0.00868	0.00824	(0.00044)	-5.08%
Over	40,000	Gallons	0.00799	0.00758	(0.00041)	-5.08%

The Commission finds that the evidence provided in the record and the analysis shows that the revenue requirement and the allocation methodology used by Commission Staff are fair, just and reasonable and should be approved. The Commission further finds that many utilities have experienced operational cost increases due to recent supply chain issues and the current rate of inflation. Commission agrees with Staff's recommendation of maintaining North McLean District's current rates unchanged.

Nonrecurring Charges. North McLean District provided the cost justification for the Nonrecurring Charges.⁹⁰ Following the Commission's previous decisions, Staff reviewed North McLean District's Nonrecurring Charges' cost justification information. Staff notes that North McLean District's current Nonrecurring Charges do not include expenses for labor performed during regular business hour nor office/clerical labor costs.⁹¹

North McLean District provided updated cost justification information for the Nonrecurring Charges⁹² as well as a list of the number of occurrences for each of its Nonrecurring Charges.⁹³ Staff reviewed the cost justification information, which included labor expense again, provided by North McLean District and adjusted these charges by removing the Field Labor Costs and the Office/Clerical Labor Costs from those charges that occur during normal business hours. Staff also removed the Office/Clerical Labor Costs from the After-Hours Re-connection Charge, as office labor is typically performed during normal business hours.

The Disconnect Charge and Re-connection Charge both increased \$3.75, from \$17.25 to \$21.00, due to increasing costs of Transportation as shown in the cost justification provided by North McLean District.⁹⁴ The Disconnect Charge (After Hours)

⁹⁰ North McLean District's Response to Staff's First Request, Item 19, 19. 2025 Updated Non Recurring.doc. North McLean District's Response to Staff's Second Request, Item 10, 10.a.nonrecurring charges.pdf.

⁹¹ Case No. 2020-00238, (Ky. PSC Jan. 27, 2021), final Order at 4-5.

⁹² North McLean District's Response to Staff's First Request, Item 19, 19. 2025 Updated Non Recurring.doc. North McLean District's Response to Staff's Second Request, Item 10, 10.a.nonrecurring charges.pdf.

⁹³ North McLean District's Response to Staff's Second Request, Item 9, 9. Non Recurring Charges 2024.xlsx.

⁹⁴ North McLean District's Response to Staff's First Request, Item 19, 19. 2025 Updated Non Recurring.doc. North McLean District's Response to Staff's Second Request, Item 10, 10.a.nonrecurring charges.pdf.

and Re-connection Charge (After Hours) both increased \$12.94, from \$54.06 to \$67, due to increasing costs on Field Labor and Transportation as shown in the cost justification provided.⁹⁵ The Service Call/Investigation increased \$2.36, from \$8.64 to \$11, due to increasing costs of Transportation as shown in the cost justification provided.⁹⁶ The Service Call/Investigation (After Hours) increased \$7.58, from \$48.42 to \$56, due to increasing costs on Field Labor and Transportation as shown in the cost justification provided. The Cut Lock increased \$2.37, from \$48.63 to \$51, due to increasing costs on Field Materials and Transportation as shown in the cost justification provided.⁹⁷ The cost justification information, shown in Appendix A, was provided by North McLean District and supports the adjustments to the Nonrecurring Charges. The adjustments discussed above result in the following revised Nonrecurring Charges:

⁹⁵ North McLean District's Response to Staff's First Request, Item 19, 19. 2025 Updated Non Recurring.doc. North McLean District's Response to Staff's Second Request, Item 10, 10.a.nonrecurring charges.pdf.

⁹⁶ North McLean District's Response to Staff's First Request, Item 19, 19. 2025 Updated Non Recurring.doc. North McLean District's Response to Staff's Second Request, Item 10, 10.a.nonrecurring charges.pdf.

⁹⁷ North McLean District's Response to Staff's First Request, Item 19, 19. 2025 Updated Non Recurring.doc. North McLean District's Response to Staff's Second Request, Item 10, 10.a.nonrecurring charges.pdf.

Charge	Current Charge	Revised Charge
Disconnect Charge	\$ 17.25	\$ 21.00
Disconnect Charge (After Hours)	\$ 54.06	\$ 67.00
Re-connection Charge	\$ 17.25	\$ 21.00
Re-connection Charge (After Hours)	\$ 54.06	\$ 67.00
Service Call/Investigation	\$ 8.64	\$ 11.00
Service Call/Investigation (After Hours)	\$ 48.42	\$ 56.00
Cut Lock	\$ 48.63	\$ 51.00
Damage to Lid or Meter Equipment	Actual Cost	Actual Cost
Meter Relocate with or without a road bore	Actual Cost	Actual Cost
Meter Re-Read Charge	\$ 20.00	\$ 11.00
Meter Test Request	Actual Cost	Actual Cost

The Commission finds that Staff's adjustments to the Nonrecurring Charges are appropriate considering the provided cost justification, and that the amounts meet the ratemaking criteria of being known and measurable. The Commission finds that Staff's recommendation is reasonable, and the revised Nonrecurring Charges as described above and in Appendix B should be accepted.

Tap-On Fees. North McLean District provided an updated cost justification for its 5/8-Inch x 3/4-Inch Meter and 1-Inch Meter Connection/Tap-On Charge.⁹⁸ Staff reviewed the cost justification information provided by North McLean District and notes that the justification supports an increase in the 5/8-Inch x 3/4-Inch Meter and 1-Inch Meter Connection/Tap-On Charge. Staff recommended that the Commission accept North McLean District's supported increase for the Tap-On fee from \$1,000 to \$1,046 for the 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge and from \$1,475 to \$1,563 for the 1-Inch Meter Connection/Tap-On Charge. Staff recommended increasing the tap on fees

⁹⁸ North McLean District's Response to Staff's First Request, Item 20, 20. Cost Justification one inch meter.pdf and 20. Cost Justification Meter.pdf.

to allow for recovery of the full expense presented in the updated cost justification provided by North McLean District for both meter installs.⁹⁹

The Commission agrees with North McLean District's supported increase of the 5/8-Inch x 3/4-Inch Meter and 1-Inch Meter Connection/Tap-On Charge to \$1,046 and \$1,563 respectively, to reflect the current expenses incurred to install new taps, in order to prevent an under recovery for the tap fee. Increasing the tap fee rate in line with North McLean District's actual cost will result in a fair, just and reasonable rate. In addition, over time, under recovery of a particular charge will result in degradation of the utility's financial condition.

INVESTIGATION INTO ALLEGED VIOLATIONS

The Commission notes that Staff's Report contained a discussion of possible violations of KRS Chapter 74.¹⁰⁰ For the reasons discussed below, the Commission finds that a separate proceeding should be established to investigate these alleged violations pursuant to KRS 278.250 and KRS 278.260. The Commission places North McLean District's commissioners on notice that failure of a water commissioner to complete the water district commissioner training described in KRS 74.020(8)(a) within 12 months of his or her initial appointment, forfeits his or her office under KRS 74.020(8)(b).

Alleged Violation of KRS 74.020(8)(b)

The initial appointment of North McLean District water commission Dale Chandler occurred in 2012.¹⁰¹ KRS 74.020(8)(a) requires the Commission to conduct a program

⁹⁹ Staff's Report at 8.

¹⁰⁰ Staff's Report at 16-18.

¹⁰¹ 2012 Annual Report at 14.

at least once annually consisting of at least 12 hours of instruction intended to train newly appointed water district commissioners in laws governing the management and operation of a water district and other relevant topics. KRS 74.020(8)(b) requires water district commissioners to complete that water training within 12 months of the commissioner's initial appointment.

In a discovery response, North McLean District admitted that "[C]arrol Troutman, Dale Chandler, and Gary Floyd have not completed 12 hours of a program."¹⁰² As previously mentioned in this Order, the Commission finds that because Gary Floyd and Carrol Troutman were both initially appointed before the requirements of KRS 74.020(8)(b) came into effect on July 15, 2010, both of these water commissioners are deemed exempt from this statutory requirement. However, because Dale Chandler's initial appointment as a water commissioner of North McLean District happened at some point in the year 2012, several months after KRS 74.020(8)(b) came into effect, Dale Chandler's initial appointment as a water commissioner would be subject to the requirements of the statute.

Based upon the above discussion, the Commission finds that a separate proceeding should be established to investigate North McLean District commissioner Dale Chandler's alleged violation of KRS 74.020(8) for failure to attend water district commissioner training within 12 months of his initial appointment, and to investigate whether a possible vacancy currently exists on the board of commissioners of North McLean District due to these alleged violations.

¹⁰² North McLean District's Response to Staff's Second Request, Item 2.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in Staff's Report, as modified herein, are supported by the evidence of record and are reasonable. By applying the OR Method to North McLean District's pro forma operations results in an Overall Revenue Requirement of \$1,199,174, the required revenue from water sales is \$1,162,679 compared to the Revenue from Sales at Present Rates of \$1,224,892 which results in excess pro forma revenues of \$62,213, or 5.08 percent.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in Staff's Report, as modified herein, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by North McLean District are denied.
3. The Charges set forth in Appendix B to this Order are approved for service rendered by North McLean District on or after the date of this Order.
4. The Commission shall open a separate proceeding, Case No. 2025-00397, to investigate whether North McLean District Commissioner, Dale Chandler, failed to attend the required 12-hour new commissioner training within 12 months of his appointment as required by KRS 74.020(8) and to determine if a vacancy exists on North McLean District's board of commissioners as a result.
5. Within 20 days of the date of service of this Order, North McLean District 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.

6. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director



APPENDIX A

APPENDIX TO ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00009 DATED JAN 14 2026

* Denotes Rounding

Nonrecurring Charges Adjustments

Disconnect Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (One hour @ 30.19)	\$ 30.19	\$	-
Office Supplies	\$ -	\$	-
Office Labor (1/2 Hr @ 29.99)	\$ 15.00	\$	-
Transportation (30 Miles Average @ 0.70)	\$ 21.00	\$	21.00
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 66.19	\$	21.00
Current Rate	\$ 17.25		

Disconnect Charge (After Hours)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (one hour @ 45.29)	\$ 45.29	\$	45.29
Office Supplies	\$ -	\$	-
Office Labor (1/2 hour @ 44.99)	\$ 22.50	\$	-
Transportation (30 Miles Average @ 0.70)	\$ 21.00	\$	21.00
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 88.79	\$	67.00
Current Rate	\$ 54.06		

Re-connection Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (One hour @ 30.19)	\$ 30.19	\$	-
Office Supplies	\$ -	\$	-
Office Labor (1/2 Hr @ 29.99)	\$ 15.00	\$	-
Transportation (30 Miles Average @ 0.70)	\$ 21.00	\$	21.00
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 66.19	\$	21.00
Current Rate	\$ 17.25		

Re-connection Charge (After Hours)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (one hour @ 45.29)	\$ 45.29	\$	45.29
Office Supplies	\$ -	\$	-
Office Labor (1/2 hour @ 44.99)	\$ 22.50	\$	-
Transportation (30 Miles Average @ 0.70)	\$ 21.00	\$	21.00
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 88.79	\$	67.00
Current Rate	\$ 54.06		

Service Call/Investigation			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (One hour @ 30.19)	\$ 30.19	\$	-
Office Supplies	\$ -	\$	-
Office Labor (1/2 Hr @ 29.99)	\$ 15.00	\$	-
Transportation (15 Miles Average @ 0.70)	\$ 10.50	\$	10.50
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 55.69	\$	11.00
Current Rate	\$ 8.64		

Service Call/Investigation (After Hours)			
	Utility Revised Charge	Staff Revised Charge	
Field Materials	\$ -	\$	-
Field Labor (One hour @ 45.29)	\$ 45.29	\$	45.29
Office Supplies	\$ -	\$	-
Office Labor (1/2 Hr @ 44.99)	\$ 22.50	\$	-
Transportation (15 Miles Average @ 0.70)	\$ 10.50	\$	10.50
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 78.29	\$	56.00
Current Rate	\$ 48.42		

Cut Lock			
	Utility Revised Charge	Staff Revised Charge	
Field Materials (Lock)	\$ 40.00	\$	40.00
Field Labor (One hour @ 30.19)	\$ 30.19	\$	-
Office Supplies	\$ -	\$	-
Office Labor (1 Hr @ 29.99)	\$ 29.99	\$	-
Transportation (15 Miles Average @ 0.70)	\$ 10.50	\$	10.50
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 110.68	\$	51.00
Current Rate	\$ 48.63		

Damage to Lid or Meter Equipment		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	\$ -	\$ -
Current Rate	Actual Cost	Actual Cost
Meter Relocate with or without a road bore		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	\$ -	\$ -
Current Rate	Actual Cost	Actual Cost
Meter Re-Read Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor (1/3 Hour @ 30.19)	\$ 10.06	\$ -
Office Supplies	\$ -	\$ -
Office Labor (1/8 hour @ 29.99)	\$ 3.75	\$ -
Transportation (15 Miles @ 0.70)	\$ 10.50	\$ 10.50
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 24.31	\$ 11.00
Current Rate	\$ 20.00	
Meter Test Request		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	\$ -	\$ -
Current Rate	Actual Cost	Actual Cost

5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge			
	Utility Revised Charge	Staff Revised Charge	
Materials Expense	\$ 704.72	\$ 704.72	
Service Pipe Expense	\$ 29.49	\$ 29.49	
Installation Labor Expense	\$ 90.57	\$ 90.57	
Installation Equipment Expense	\$ 90.57	\$ 90.57	
Installation Miscellaneous Expense	\$ 90.57	\$ 90.57	
Overhead Expense	\$ 10.06	\$ 10.06	
Administrative Expense	\$ 29.99	\$ 29.99	
Total Revised Charge*	<u>\$ 1,045.97</u>	<u>\$ 1,046.00</u>	
Current Rate	\$ 1,000.00		

1 Inch Meter Connection/Tap-On Charge			
	Utility Revised Charge	Staff Revised Charge	
Materials Expense	\$ 1,198.78	\$ 1,198.78	
Service Pipe Expense	\$ 46.80	\$ 46.80	
Installation Labor Expense	\$ 90.57	\$ 90.57	
Installation Equipment Expense	\$ 90.57	\$ 90.57	
Installation Miscellaneous Expense	\$ 90.57	\$ 90.57	
Overhead Expense	\$ 15.18	\$ 15.18	
Administrative Expense	\$ 29.99	\$ 29.99	
Total Revised Charge*	<u>\$ 1,562.46</u>	<u>\$ 1,563.00</u>	
Current Rate	\$ 1,475.00		

APPENDIX B

APPENDIX TO ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00009 DATED JAN 14 2026

The following rates and charges are prescribed for the customers in the area served by North McLean Water District. All other rates and charges not specifically mentioned herein remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Charge	Revised Charge
Disconnect Charge	\$ 21.00
Disconnect Charge (After Hours)	\$ 67.00
Re-connection Charge	\$ 21.00
Re-connection Charge (After Hours)	\$ 67.00
Service Call/Investigation	\$ 11.00
Service Call/Investigation (After Hours)	\$ 56.00
Cut Lock	\$ 51.00
Damage to Lid or Meter Equipment	Actual Cost
Meter Relocate with or without a road bore	Actual Cost
Meter Re-Read Charge	\$ 11.00
Meter Test Request	Actual Cost

Meter Connection/Tap-On Charges

5/8 Inch X 3/4 Inch Meter	\$ 1,046.00
1 Inch Meter	\$ 1,563.00

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