

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BATH COUNTY)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2025-00132
PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of May 16, 2025, the attached report containing the recommendations of Commission Staff (Staff) regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's May 16, 2025 Order, Bath County Water District (Bath District) is required to file written comments regarding the recommendations of Staff no later than 14 days from the date of service of this report. The Commission directs Bath District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



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

DATED **SEP 15 2025**

cc: Parties of Record

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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COMMISSION STAFF'S REPORT
ON BATH COUNTY WATER DISTRICT

Bath County Water District (Bath 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 approximately 4,051 residential customers, 113 commercial customers and seven industrial customers, that reside in Bath, Menifee, Montgomery and Rowan counties, Kentucky.¹

On May 5, 2025,² Bath 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 9,³ Bath District used the calendar year ended December 31, 2024, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2024-00177⁴ which required Bath District to file

¹ *Annual Report of Bath County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report) at 12 and 49.

² Bath District tendered its application on May 5, 2025. By letter dated May 7, 2025, the Commission found no filing deficiencies, and the application is deemed filed on May 5, 2025.

³ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

⁴ Case No. 2024-00177, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (Ky. PSC July 10, 2024), final Order at 5, ordering paragraph 5.

an application for an adjustment of its base rates by June 30, 2025. Bath District's last base rate increase, filed pursuant to the alternative rate filing procedure, was in Case No. 2022-00404.⁵ Since that matter, Bath District has only adjusted its rates pursuant to purchased water adjustments. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated May 16, 2025. Bath District timely responded to two requests for information.⁶

UNACCOUNTED-FOR WATER LOSS

The Commission notes that, Bath District reported a water loss of 15.5428 percent, 11.2640 percent, and 15.0567 percent in its 2022, 2023, and 2024 Annual Reports, respectively.⁷ 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. The table below shows that the 2024 total annual cost of water loss to Bath District is \$305,882 while the annual cost of water loss in excess of 15 percent is \$1,152.

⁵ See Case No. 2022-00404, *Electronic Application of Bath County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*.

⁶ Bath District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 5, 2025); Bath District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 17, 2025).

⁷ *Annual Report of Bath District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 58, (2023 Annual Report) at 57 and (2024 Annual Report) at 57.

Total Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 1,908,748	\$ 107,831	\$ 14,953	\$ 2,031,532
Water Loss Percent	15.0567%	15.0567%	15.0567%	15.0567%
Total Water Loss	\$ 287,395	\$ 16,236	\$ 2,251	\$ 305,882

Disallowed Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 1,908,748	\$ 107,831	\$ 14,953	\$ 2,031,532
Water Loss in Excess of 15%	0.0567%	0.0567%	0.0567%	0.0567%
Disallowed Water Loss	\$ 1,083	\$ 61	\$ 8	\$ 1,152

DISCUSSION

Using its pro forma test-year operations, Bath District determined that a base rate revenue increase of \$904,232, or 34.75 percent, was necessary to achieve the revenue requirement as shown in the table below.⁸ As part of the increase, Bath District proposed to include a post-test year increase to its purchased water expenses by \$639,611 due to the wholesale rate increase from Morehead Utility Plant Board (Morehead).⁹ Bath District requested interim rates to account for this increase before the issuance of the final Order in this case.¹⁰ Bath District's request for interim rates was denied, and it was ordered to file a Purchased Water Adjustment (PWA) as a separate case.¹¹ Bath District filed a PWA on June 24, 2025, to pass through the rate increase from Morehead, and the PWA final Order was issued on July 24, 2025.¹² The Commission approved an increase in rates of

⁸ Application, Exhibit 3, Revenue Requirement Table.

⁹ Application, SAO, Exhibit 3 at 3, Adjustment I.

¹⁰ Application, Exhibit 2 at 2.

¹¹ Order (Ky. PSC June 4, 2025) at 4, ordering paragraphs 1 and 2.

¹² Case No. 2025-00187, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (Ky. PSC July 24, 2025).

\$1.46 per 1,000 gallons in the July 24, 2025 PWA final Order.¹³ Without the inclusion of the requested purchased water adjustment of \$639,611, Bath District's requested revenue increase would have been \$264,621 or 8.16 percent. Bath District used the Debt Service Coverage (DSC) method to calculate its revenue requirement.

Description	Bath County Water District
Pro Forma Operating Expenses	\$ 3,449,953
Average Annual Principal and Interest Payments	111,580
Additional Working Capital at 20%	22,316
Interest On Customer Deposits	5,188
Total Revenue Requirement	3,589,037
Other Revenue ()	(57,377)
Interest Income ()	(2,931)
Revenue from Sewer Billing Service	(22,651)
Revenue Required From Water Sales	3,506,078
Revenue from Sales at Present Rates ()	(2,601,846)
Required Revenue Increase / (Decrease)	\$ 904,232
Percentage Increase / (Decrease)	34.75%

To determine the reasonableness of the rates requested by Bath District, Staff performed a limited financial review of Bath District's test-year operations. The scope of Staff's review was limited to determining whether operations reported for the test year

¹³ Case No. 2025-00187, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (Ky. PSC July 24, 2025), final Order.

were representative of normal operations. Known and measurable¹⁴ changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Staff's recommendations are summarized in this report. Vinay Raj Raju reviewed the calculation of Bath District's Overall Revenue Requirement, and Elizabeth Stefanski reviewed Bath District's reported revenues and rate design.

SUMMARY OF FINDINGS

Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, as generally accepted by the Commission, Staff found that Bath District's required revenue from water sales is \$3,479,964 to meet the Overall Revenue Requirement of \$3,541,632, and that a \$203,062 revenue increase, or 6.20 percent, to pro forma present rate revenues, after the application of the PWA increase approved in Case No. 2025-00187, is necessary to generate the Overall Revenue Requirement.

Monthly Water Service Rates. Bath District proposed to increase all of its monthly retail water service rates evenly across the board by 34.75 percent.¹⁵ Bath District stated

¹⁴ Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

¹⁵ Application, Exhibit 3, Schedule B.

that it did not file a cost-of-service study (COSS) at this time.¹⁶ Bath District stated that it did not consider filing a COSS with the current rate application as there were no material changes in its system, and Bath District would consider preparing a new COSS if material changes in customer usage patterns were to occur.¹⁷ Bath District stated that it was unable to locate a copy of the most recent COSS performed.¹⁸

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.¹⁹ Finding no such evidence in this case, Staff allocated the \$203,062 revenue increase evenly across Bath District's monthly retail water service rates. The rates recommended in Appendix B to this report are based upon the revenue requirement, as calculated by Staff, and will produce sufficient revenues from water sales to recover the \$3,479,964 revenue required from rates, an approximate 6.20 percent increase. The monthly water bill for a typical residential customer using 3,952 gallons²⁰ per month will increase by \$2.35 from \$37.47 to \$39.83, or approximately 6.28 percent.

Nonrecurring Charges and Meter Connection Charges. Following the Commission's previous decisions addressing the recovery of labor recovered in rates

¹⁶ Bath District's Response to Staff's First Request, Item 14(a).

¹⁷ Bath District's Response to Staff's First Request, Item 14(a).

¹⁸ Bath District's Response to Staff's First Request, Item 14(d).

¹⁹ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

²⁰ Application, Exhibit 1.

included in the Nonrecurring Charges,²¹ Staff reviewed Bath District's Nonrecurring Charges. Since utility personnel are already compensated for labor performed during regular business hours, estimated labor costs representing periods occurring during regular business hours, which were previously included in determining Nonrecurring Charges expense, should be eliminated from the charges. Bath District provided updated cost justification information for the Nonrecurring Charges shown in Appendix A, and the cost justification information from Bath District's previous case,²² which Staff reviewed. The Nonrecurring Charges in the current tariff do not include Field Labor Costs and Office/Clerical Labor Costs for charges which occur during regular business hours, as those costs were removed in Bath District's previous case.²³ In contrast, Bath District's Nonrecurring Charges occurring after normal business hours resulted in increased labor expense thus were adjusted accordingly, as can be seen in Appendix A. The revised Nonrecurring Charges are shown below:

Nonrecurring Charge	Current Charge	Revised Charge
Connection Charge After Hours	\$70.00	\$91.00
Field Collection Charge After Hours	\$70.00	\$91.00
Meter Re-read Charge After Hours	\$70.00	\$91.00
Reconnection Charge After Hours	\$70.00	\$91.00
Service Call Charge After Hours	\$70.00	\$91.00
Service Line Inspection After Hours	\$70.00	\$91.00

²¹ Case No. 2024-00155, *Electronic Application of Cannonsburg Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Apr. 8, 2025); Case No. 2024-00242, *Electronic Application of Wood Creek Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 21, 2025); Case No. 2024-00068, *Electronic Application of Simpson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 29, 2024); and Case No. 2024-00002, *Electronic Application of Nebo Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 2, 2024).

²² Bath District's Response to Staff's First Request, Item 19.

²³ Case No. 2022-00404, *Electronic Application of Bath County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 10, 2023), final Order; and Bath District's Response to Staff's First Request, Item 19.

The revised Nonrecurring Charges did not result in any adjustments to Miscellaneous Service Revenues, which was comprised entirely of Nonrecurring Charge Revenue, because there were zero occurrences of the revised charges in the test year.²⁴ Staff notes there was a small \$70 difference from the test year because of Other Miscellaneous Income, with that inclusion, the test year amount is equal to the pro forma and does not require any adjustments. The table below shows the calculation of Pro Forma Miscellaneous Revenues that agree with the test year amount of \$21,933 and therefore, do not require an adjustment.

Description	Occurrences	Current Charge	Revised Charge	Test Year	Pro Forma
Connection Charge	133	\$27.50	\$27.50	\$ 3,658	\$ 3,658
Connection Charge After Hours	0	\$70.00	\$91.00	-	-
Field Collection	0	\$27.50	\$27.50	-	-
Field Collection After Hours	0	\$70.00	\$91.00	-	-
Meter Re-read Charge	17	\$27.50	\$27.50	468	468
Meter Re-read Charge After Hours	0	\$70.00	\$91.00	-	-
Meter Relocation Charge	0	Actual	Actual	-	-
Meter Test Charge	0	\$27.50	\$27.50	-	-
Reconnection Charge	586	\$27.50	\$27.50	16,115	16,115
Reconnection Charge After Hours	0	\$70.00	\$91.00	-	-
Service Call Charge	59	\$27.50	\$27.50	1,623	1,623
Service Call Charge After Hours	0	\$70.00	\$91.00	-	-
Service Line Inspection	0	\$27.50	\$27.50	-	-
Service Line Inspection After Hours	0	\$70.00	\$91.00	-	-
Nonrecurring Charge Sub-total				<u>\$21,863</u>	\$21,863
Other Misc Revenues					\$70
Total					<u>\$21,933</u>

Bath District provided updated cost justification sheets for its 5/8-inch x 3/4-inch Meter Connection and the 5/8-inch x 3/4-inch Tandem Service Connection.²⁵ Staff reviewed the information provided by Bath District and recommends a decrease to the

²⁴ Bath District's Response to Staff's First Request, Item 18.

²⁵ Bath District's Response to Staff's First Request, Item 20.

meter connection charges as shown in the table below, because the lower rates are based on known and measurable adjustments provided in the supporting documentation.²⁶

<u>Meter Connection Charges</u>	<u>Current Charge</u>	<u>Revised Charge</u>
5/8 x 3/4 Inch Water Tap On	\$1,350.00	\$1,175.00
5/8 x 3/4 Inch Tandem Service	\$1,535.00	\$1,343.00
All Larger Meters	Actual Cost	Actual Cost

PRO FORMA OPERATING STATEMENT

Bath District's Pro Forma Operating Statement for the test year ended December 31, 2024, as determined by Staff appears in the table below.

²⁶ Bath District's Response to Staff's First Request, Item 20.

Description	Test Year	Bath County Water District Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
Operating Revenues						
Metered Retail Sales	\$ 1,687,405	\$ (443)		\$ (443)	A	
		26,686	354,662	\$ 381,348	B	2,068,310
Water Sales - Wholesale	862,563	24,275	321,754	\$ 346,029	C	1,208,592
Bulk Loading Statton	45	0		0		45
Fire Protection	480	0		0		480
Other Meter Testing	835	0		0		835
Other Operating Water Revenue				0		0
Forefeited Discounts	35,444	0	0	0		35,444
Miscellaneous Service Revenues	21,933	0	0	0		21,933
Total Operating Revenues	2,608,705	50,518	676,416	726,934		3,335,639
Operation and Maintenance						
Salaries and Wages - Employees	365,807	19,733	1,201	20,934	D	386,741
Salaries and Wages - Officers	17,700	0	300	300	E	18,000
Employee Retirements - CERS	76,313	(2,463)	(2,063)	(4,526)	F	71,787
HSA-FEBCO/Life Insurance	24,159	0	0	0		24,159
Employee Benefits	111,507	8,583		8,583	G	
		(10,445)	(27,625)	(38,070)	G1	82,020
Purchased Water	1,217,709	52,700	(1,272)	51,428	H	
		639,611	0	639,611	H1	
			(1,083)	(1,083)	I	1,907,665
Purchased Power	107,831	0	(61)	(61)	I	107,770
Chemicals	14,953	0	(8)	(8)	I	14,945
Materials and Supplies	39,779	85,282	0	85,282	J	
		(36,589)	0	(36,589)	J1	
		(8,961)	0	(8,961)	J2	79,511
Contractual Services - Accounting	7,430	0	0	0		7,430
Contractual Services - Legal	350	0	0	0		350
Contractual Services - Water Testing	9,286	0	0	0		9,286
Transportation Expenses	27,115	0	0	0		27,115
Insurance -General Liability	27,462	0	7,635	7,635	L	35,097
Insurance - Workers Compensation	8,404	0	(257)	(257)	M	8,147
Insurance - Other	845	0	0	0		845
Bad Debt	5,714	0	0	0		5,714
Miscellaneous		0	0	0		0
Equipment Rental	250	0	0	0		250
Regulatory Commission Expense	3,083	0	0	0		3,083
Miscellaneous	5,154	0	(4,572)	(4,572)	N	582
Credit Card Fees	28,377			0		28,377
Office Utilities	24,425	0	0	0		24,425
Postage	23,527	0	0	0		23,527
Total	2,147,180	747,451	(27,805)	719,646		2,866,826
Amortization		3,333	(216)	3,117	K	3,117
Depreciation Expense	466,780	674	0	674	O	
		(27,491)	0	(27,491)	O1	
		62,852	(11,360)	51,492	O2	
		18,864	(9,432)	9,432	O3	500,887
Taxes Other Than Income	38,894	(8,583)		(8,583)	P	
			1,407	1,407	P1	31,718
Total Operating Expenses	2,652,854	797,100	(47,406)	749,694		3,402,548
Net Operating Income	(44,149)	(746,582)	723,822	(22,760)		(66,909)
Interest Income	2,931			0		2,931
Revenue from Sewer Billing Service	22,651	0	0	0		22,651
Income Available to Service Debt	\$ (18,567)	\$ (746,582)	\$ 723,822	\$ (22,760)		\$ (41,327)

(A) Billing Analysis Adjustment. In its application, Bath District proposed a decrease of \$443 to Metered Water Sales and provided a billing analysis listing the water usage and water sales revenue for the 12-month test year of 2024, with total metered water sales revenue calculated as \$2,549,526.²⁷ Bath District's reported test year metered water sales was \$2,549,969.²⁸ Staff recommends accepting Bath District's proposed decrease of \$443 to Water Sales – Retail to normalize water service revenues to the amounts indicated in its billing analysis.²⁹

(B) Metered Retail Sales. On July 10, 2024, Bath District was approved by the Commission to increase its service rates through a purchased water adjustment filing (PWA), due to an increase from its supplier, with an effective date of July 15, 2024.³⁰ In its application, Bath District proposed an increase to test year retail water sales of \$26,686 to reflect the difference between the water service rates at the beginning of the test year and rates approved on July 10, 2024.³¹ The evidence in the case demonstrates this is a known and measurable adjustment. On July 24, 2025, the Commission approved a water service rate increase pursuant to Bath District's filing of a PWA to increase its service rates effective July 15, 2025.³² Staff increased revenue by \$354,662 to reflect the difference between the normalized revenue as calculated by Bath District and the revenue

²⁷ Application, SAO, Exhibit 3 at 3, Adjustment A.

²⁸ 2024 Annual Report at 49.

²⁹ Application, Exhibit_4_-_Billing_Analysis.xlsx.

³⁰ See Case No. 2024-00177, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (Ky. PSC July 10, 2024).

³¹ Application, SAO, Exhibit 3 at 4, Adjustment B.

³² Case No. 2025-00187, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (Ky. PSC July 24, 2025), final Order.

based on the July 24, 2025 rates, as approved by the Commission. Staff recommends the Commission accept the total increase of \$381,348, which represents both the adjustment for the rates approved in Case No. 2024-00177, and the adjustment for the rates approved in Case No. 2025-00187.

(C) Sales for Resale. As discussed in the previous paragraph, Bath District increased its service rates through a PWA during the test year due to an increase from its supplier.³³ In its application, Bath District proposed an increase to test year wholesale rates of \$24,275 to account for the difference between the wholesale rates at the beginning of the test year and rates approved on July 10, 2024.³⁴ In addition, on July 24, 2025, the Commission approved an additional wholesale rate increase pursuant to Bath District's filing of a PWA to increase its service rates effectively on July 15, 2025.³⁵ The difference between the normalized wholesale revenue as calculated by Bath District and the wholesale revenue based on the July 24, 2025 rates, is an increase of \$321,754. Staff recommends that the Commission accept the total increase to Bath District's wholesale revenue of \$346,029, which represents adjustments for rates approved in Case No. 2024-00177 and in Case No. 2025-00187.

(D) Salaries and Wages - Employees. Bath District reported \$365,807 of expenses related to Salaries and Wages – Employees³⁶ and proposed one adjustment to increase expenses by \$19,733 to reflect changes in personnel and wage rates for the test

³³ See Case No. 2024-00177, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (Ky. PSC July 10, 2024).

³⁴ Application, SAO, Exhibit 3 at 4-5, Adjustment C.

³⁵ Case No. 2025-00187, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (Ky. PSC July 24, 2025), final Order.

³⁶ Application, Exhibit 3, Statement of Adjusted Operations.

year to reach the calculated pro forma of \$385,540.³⁷ Bath District currently has nine full-time employees. During the test year, Bath District's Manager, Field Manager, and one field employee left employment. The vacated Manager and Field Manager positions were filled with other Bath District employees, while the field employee position was filled with a new employee. In addition, Bath District hired an additional new field employee resulting in nine full time employees.³⁸ Bath District stated that the two new field employees were assigned 2,080 full time regular hours plus the 119.5 hours of total overtime that had been recorded by the former district field employees during the test year. By assigning 119.5 overtime hours to the new employees, 388 total overtime hours were included in pro forma operations.³⁹ Bath District provided calculation on capitalized wages of \$11,074,⁴⁰ Staff disagrees with Bath District's methodology and Staff recommends using test year capitalized wages of \$9,873. Staff recalculated the amount and recommends the Commission accept Staff's adjustment of an increase of \$1,201 to Bath District's proposed adjustment, for a total of \$20,934, to reflect the test year expenses as shown below.

³⁷ Application, Exhibit 3, References, Reference D.

³⁸ Application, Exhibit 3, References, Reference D.

³⁹ Application, Exhibit 3, References, Reference D.

⁴⁰ Application, Exhibit 3, References, Reference D.

Employee Position	Test-Year Regular Hours	Current Wage Rate	Total Regular Wages	Test-Year Overtime Hours	Current Overtime Rate	Total Overtime Wages	Total Wages
Manager	2,080	\$ 24.75	51,480	-	\$ -	\$ -	\$ 51,480
Customer Service Representative	2,082	19.23	40,027	1.50	28.85	43	40,070
Customer Service Representative	2,061	18.00	37,089	7.00	27.00	189	37,278
Field Manager	2,092	22.00	46,024	81.50	33.00	2,690	48,714
Field Supervisor	2,114	21.00	44,394	77.50	31.50	2,441	46,835
Class II Distribution Operator	2,110	25.12	52,990	35.00	37.68	1,319	54,309
Maintenance	2,054	18.50	37,989	66.00	27.75	1,832	39,821
Maintenance	2,080	18.00	37,440	91.50	27.00	2,471	39,911
Maintenance	2,080	18.00	37,440	28.00	27.00	756	38,196
Total	<u>18,751</u>		<u>\$ 384,873</u>	<u>388.00</u>		<u>\$ 11,741</u>	<u>396,614</u>
Test Year Capitalized Wages ()							(9,873)
Test Year Emp. Salaries & Wages Exp ()							(365,807)
Pro Forma Adjustment							20,934
Bath County District's Adjustment ()							(19,733)
Difference Between Bath District's and Commission Staff's Adjustments							<u>\$ 1,201</u>

(E) Salaries and Wages – Officers. Bath District reported test year Salaries and Wages – Officers of \$17,700 and proposed no adjustments. Bath District's Board consists of five members who are each paid \$3,600 per year. Bath District provided training records for each of its commissioners,⁴¹ Fiscal Court minutes that approved the appointments,⁴² and pay authorization for its commissioners.⁴³ KRS 74.020(6) states that “[e]ach commissioner shall receive an annual salary of not more than thirty-six hundred (\$3,600) . . .” and that “[i]n fixing and approving the salary of the commissioner, the county judge/executive and the fiscal court shall into consideration the financial condition of the district and its ability to meet its obligations as they mature.”⁴⁴ Staff reviewed the 2024 general ledger and determined that an adjustment to increase the expense by \$300 was

⁴¹ Bath District's Response to Staff's First Request, Item 10b, Commissioner Training Certificates.

⁴² Bath District's Response to Staff's First Request, Item 10a, Fiscal Court Appointments.

⁴³ Bath District's Response to Staff's Second Request, Item 1, Fiscal Court minutes.

⁴⁴ KRS 74.020(6), Appointment of commissioner – Number – Terms – Removal – Vacancies – Organization – Bond – Compensation – Mandatory Training – Notice of Vacancy.

required as shown in the table below. Staff recommends the Commission accept the Staff's pro forma of \$18,000 in commissioners' salaries in the revenue requirement as the Bath District provided the required documentation and because the adjustment is known and measurable.

Commissioners	Pro Forma Salaries
Mike Ginter	\$ 3,600
Mike Croclett	3,600
Jeanette Walton	3,600
Valerie Ousley	3,600
Kenneth Barber	3,600
Total	\$ 18,000
Test Year ()	(17,700)
Staff's Adjustment	<u>\$ 300</u>

(F) Employee Pension and Benefits – (CERS). Bath District participates in the County Employees Retirement System (CERS), which is managed by the Kentucky Public Pension Authority (KPPA).⁴⁵ In Case No. 2016-00163,⁴⁶ the Commission found that a district's annual pension expense should be equal to the amount of a district's contribution to CERS. Bath District reported \$76,313 of expenses related to CERS and proposed a decrease of \$2,463 to account for the change in the contribution rates required by CERS beginning July 1, 2025. Staff recalculated the adjustment due to the decrease in contribution rate⁴⁷ and change in wages discussed above and recommends decreasing Bath District's retirement expense by \$4,526 which is \$2,063 more than Bath

⁴⁵ Application, Exhibit 3, References, Reference E.

⁴⁶ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11-15.

⁴⁷ CERS Board Meeting December 2, 2024.
<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>

District's proposal. The adjustment results in a pro forma test year amount of \$71,787 as shown in the table below. Staff recommends the Commission accept Staff's adjustment as the amounts are known and measurable and are consistent with Commission precedent.

Description	Test Year	Pro Forma
Wages	\$ 365,807	\$ 385,540
Contribution Rate	21.53%	18.62%
Contributions	78,740	71,787
Immaterial Unidentified Amounts	(2,427)	0
Total	<u>\$ 76,313</u>	<u>71,787</u>
Increase / (Decrease)		(4,526)
Bath District Proposed Adjustment ()		2,463
Commission Staff Adjustment		<u>\$ (2,063)</u>

(G) Employee Pension and Benefits – (KACo Health Insurance). Bath District provides health, vision, flex spending, retirement and life insurance for all of its employees. Bath District pays 100 percent of the cost for all employees that are hired before May 30, 2023, and 100 percent of the cost of a single health care plan that covers only the employee for employees hired after May 30, 2023.⁴⁸ In its application, Bath District proposed two adjustments. First, it proposed an increase of \$8,583 to account for an insurance payment that was misclassified to Taxes Other Than Income. Second, it proposed a decrease to Employee Benefits expense by \$10,445 (G1) to reflect the current monthly premium paid on behalf of all nine full time employees.⁴⁹ Bath District

⁴⁸ Bath District's Response to Staff's First Request, Item 7.

⁴⁹ Application, Exhibit 3, References, Reference G.

requested the Commission allow full rate recovery for the cost of employee health insurance benefits.⁵⁰ Bath District stated that the disallowance of employee health insurance expense does not consider the value of total compensation package provided to Bath District employees.⁵¹ Bath District also stated it has taken measures to help control future employee health insurance costs by offering only single health insurance coverage at no cost to newly hired employees.⁵²

While Staff appreciates Bath District's steps to control health insurance costs, there was insufficient evidence to support employer contributions in excess of the Bureau of Labor Statistics' survey amounts were appropriate or necessary to attract and retain employees as part of an overall benefit package. Therefore, Staff recognized that using an updated average of 80 percent for employee-only coverage⁵³ and 68 percent for family coverage⁵⁴ would allow for Bath District's rates to reflect the most up-to-date average employer contribution amounts.⁵⁵ Accordingly, Staff adjusted Bath District's health insurance plan employer contribution expense for single and family plans to 80 and 68 percent, respectively. This resulted in an additional reduction of \$27,625 (G1) as shown in the table below. Staff recommends the Commission accept Staff's adjustment as there

⁵⁰ Application, Exhibit 3, References, Reference G.

⁵¹ Application, Exhibit 3, References, Reference G.

⁵² Application, Exhibit 3, References, Reference G.

⁵³ 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>).

⁵⁴ 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>).

⁵⁵ 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>).

is 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.

Type of Premium	Number of Employees	Monthly Gross Cost	BLS Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Medical Insurance - Single	5	\$ 2,427	20%	\$ (485)	\$ 1,942
Medical Insurance - Family	4	6,711	32%	(2,148)	4,563
Life Insurance	9	236	0%	-	236
Vision	9	94	0%	-	94
Total Monthly Pro Forma Premium		9,468		(2,633)	6,835
Multiplied by: 12 Months		12		12	12
Total Annual Health Insurance Premium		<u>\$ 113,616</u>		<u>\$ (31,595)</u>	82,020
Test Year Insurance Premium ()					(120,090)
Commission Staff's Adjustment					(38,070)
Bath County Proposed Adjustment ()					10,445
Difference between Bath District and Commission Staff Adjustment					<u>\$ (27,625)</u>

(H) Purchased Water. Bath District purchases water from Morehead, Mt. Sterling Water and Sewer System (Mt. Sterling), the city of Frenchburg (Frenchburg) and the city of Owingsville (Owingsville).⁵⁶ Bath District reported \$1,217,709 in purchased water expenses and proposed two adjustments.⁵⁷ The first adjustment was an increase of \$52,700.⁵⁸ During the test year Bath District purchased 527,526,592 gallons of water for resale.⁵⁹ Bath District stated that, during the test year, Morehead, Mt. Sterling, and Owingsville increased rates charged to Bath District.⁶⁰ At the beginning of the test year,

⁵⁶ Application, Exhibit 3 at 10-12.

⁵⁷ Application, Exhibit 3, Statement of Adjusted Operations.

⁵⁸ Application, Exhibit 3, Statement of Adjusted Operations.

⁵⁹ Bath District's Response to Staff's Second Request, item 4.

⁶⁰ Application, Exhibit 3, References, Reference H.

Morehead's rate to Bath District included three components consisting of (1) a monthly Capital Improvement Charge in the amount of \$18,789.70; (2) a monthly Billing and Meter Charge in the amount of \$10; and (3) a volumetric rate in the amount of \$1.626 per thousand gallons.⁶¹ For services rendered on and after July 1, 2024, Morehead's rate included only a volumetric rate in the amount of \$2.284 per thousand gallons. The Capital Improvement Charge and Billing and Meter Charge were eliminated.⁶² Also, effective September 1, 2024, Mt. Sterling increased its rate to Bath District from \$3.67 per thousand gallons to \$3.82 per thousand gallons while Owingsville increased its rate to Bath District from \$3.44 per thousand gallons to \$3.64 per thousand gallons on June 11, 2024.⁶³

Staff calculated Purchased Water Expense using the test year gallons purchased and the current rates resulting in a pro forma Purchased Water Expense of \$1,269,137, as shown in the following table. Staff calculated a decrease to Purchased Water Expense of \$51,428, which is a \$1,272 decrease from the amount proposed by Bath District.

Description	Morehead	Mt. Sterling	Frenchburg	Owingsville	Total
Gallons	482,361,000	29,943,592	2,078,000	13,144,000	527,526,592
Current Purchase Rate	\$ 2.2840	\$ 3.8200	\$ 2.500	\$ 3.640	-
Pro Forma Cost	1,101,713	114,385	5,195	47,844	1,269,137
Test Year Purchase Cost	(1,053,364)	(111,232)	(6,468)	(46,645)	(1,217,709)
Purchased Water Adjustment	48,349	3,153	(1,273)	1,199	51,428
Bath District's Proposed Adjustment	(48,349.00)	(3,153.00)	-	(1,199)	(52,700)
Difference	\$ -	\$ -	\$ (1,273)	\$ -	\$ (1,272)

⁶¹ Application, Exhibit 3, References, Reference H.

⁶² Application, Exhibit 3, References, Reference H, and See Case No. 2024-00193, *Electronic Tariff Filing of Morehead Utility Plant Board To Revise Its Wholesale Water Rates To and Enter Into Revised Water Purchase Agreements With Bath County Water District and Rowan Water, Inc.* (Ky. PSC Feb. 18, 2025).

⁶³ Application, Exhibit 3, References, Reference I.

The second adjustment was an increase of \$639,611 (H1) which is Morehead's post-test year increase to Wholesale Rate for the services rendered on and after July 15, 2025. Staff reviewed the Bath District's calculation and agreed with Bath District's adjustment. Staff recommends the Commission accept Staff's adjustment as it is reasonable based on the documentation of gallons purchased and the cost in the case record.

Description	Morehead
Gallons	482,361,000
Current Purchase Rate	\$ 3.6100
Pro Forma Cost	1,741,324
Test Year Purchase Cost	(1,101,713)
Purchased Water Adjustment	639,611
Difference	\$ 639,611

(l) Excess Water Loss. In its application, Bath District did not propose any adjustments to decrease Purchased Water Expense, Purchased Power Expense and Chemical Expenses. During the test year, Bath District reported water loss of 15.0567 percent.⁶⁴ Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included for ratemaking purposes.⁶⁵ Bath District's pro forma indicated \$1,908,748 of expenses related to Purchased Water, \$107,831 of expenses related to Purchased Power and \$14,953 of expenses related to Chemicals. Staff made one adjustment for each item to decrease the Purchased Water expense by \$1,083, Purchased Power expense by \$61 and Chemical expenses by \$8 to

⁶⁴ 2024 Annual Water Report at 57.

⁶⁵ 807 KAR 5:066 (Water), Section 6(3) (Water Supply Measurement).

reflect the disallowance of water loss expenses in excess of 15 percent. Staff recommends the Commission accept Staff's adjustment of a \$1,083 decrease to Purchase Water Expense, \$61 decrease to Purchased Power Expense, and a \$8 decrease to Chemical Expenses, since the amounts reflect the limit to costs related to excess water loss to 15 percent.

Disallowed Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 1,908,748	\$ 107,831	\$ 14,953	\$ 2,031,532
Water Loss in Excess of 15%	0.0567%	0.0567%	0.0567%	0.0567%
Disallowed Water Loss	\$ 1,083	\$ 61	\$ 8	\$ 1,152

(J) Materials and Supplies. Bath District reported a Materials and Supplies expense of \$39,779 in the test year and proposed three adjustments.⁶⁶ The first adjustment was an increase of \$85,282.⁶⁷ Bath District stated that during the test-year, it reported Materials and Supplies expense using three ledger accounts that totaled \$123,205 before Audit Adjustment No. 11 was recorded.⁶⁸ This audit adjustment removed \$85,282, from the Materials and Supplies expense account that was added to the Plant Materials and Supplies Inventory account.⁶⁹ Staff reviewed the Bath District's general ledger and agrees with Bath District's adjustment.

During the test year Bath District installed 58 new 5/8-inch meters and calculated the wages capitalization amount of \$9,873 and materials capitalization amount of

⁶⁶ Application, Exhibit 3, Statement of Adjusted Operations.

⁶⁷ Application, Exhibit 3, Statement of Adjusted Operations.

⁶⁸ Application, Exhibit 3, References, Reference J.

⁶⁹ Application, Exhibit 3, References, Reference J.

\$42,568.⁷⁰ Bath District proposed to decrease Materials and Supplies by \$36,589 (J1) to account for uncapitalized tap-fee expenses during the test year.⁷¹ Staff agrees with Bath District's calculation as shown below and recommends accepting Bath District's proposed adjustment. The USoA for class A/B Water Systems requires that these costs be capitalized as Utility plant in Service and depreciated over their estimated useful lives.⁷²

Description	Total Capitalization	Bath District Test Year Capitalization	Capitalization Remaining
Tap Fees	\$89,030	\$52,441	\$36,589

The third adjustment Bath District proposed was to decrease Materials and Supplies by \$8,961 (J2).⁷³ During the test year, Bath District paid \$8,961 to OES Underground (\$6,000 on June 27 and \$2,961 on July 1) for its services in replacing a master meter and meter vault that serves a wholesale customer.⁷⁴ This cost was originally reported as a Materials and Supplies expense, and it has been removed from test year operating expenses and was capitalized for depreciation.⁷⁵ Staff reviewed the Bath District's adjustment and agrees with Bath District adjustment. Staff recommends the Commission accept Bath District's proposed adjustments resulting in a Pro Forma Materials and Supplies expense of \$96,347.

⁷⁰ Application, Exhibit 3, References, Reference D.

⁷¹ Application, Exhibit 3, Statement of Adjusted Operations.

⁷² USoA, Accounting Instruction 19 and 33.

⁷³ Application, Exhibit 3, Statement of Adjusted Operations.

⁷⁴ Application, Exhibit 3, References, Reference L.

⁷⁵ Application, Exhibit 3, References, Reference L.

(K) Rate Case Amortization. In its application, Bath District did not report any test year expenses related to Rate Case Amortization but proposed one adjustment to increase Rate Case Amortization expense by \$3,333.⁷⁶ Bath District estimated rate case expenses of \$10,000 and Bath District provided the copy of the contract prepared by the Kentucky Rural Water Association (KRWA) for a total of \$10,295.⁷⁷ Bath District proposed to amortize the rate case expense over three years, Staff agrees with Bath District's methodology because utilities are expected to file for an rate case every three to five years. Staff reviewed the contract and recommends an adjustment of \$3,432 which is \$99 more than Bath District's proposed adjustment. Staff recommends the Commission accept Staff's proposed adjustment because it is known and measurable.

Descirption	Amount
KRWA	9,350
Publishing customer notice	945
Total	10,295
Amortization Years	3
Annual Rate Case Expense	3,432
Bath District's Proposed Adjustment ()	(3,333)
Difference	\$ 99

(L) Insurance - General Liability. Bath District reported a test year amount of \$27,462 and proposed no changes to the account.⁷⁸ Staff reviewed the Bath District's

⁷⁶ Application, Exhibit 3, Statement of Adjusted Operations.

⁷⁷ Bath District's Response to Staff's First Request, Item 4.

⁷⁸ Application, Exhibit 3, Statement of Adjusted Operations.

general ledger⁷⁹ and submitted invoices,⁸⁰ Staff recalculated the expense based on the submitted invoices⁸¹ and recommends an increase of \$7,635 to the test year amounts to match the most recent invoices. Staff recommends the Commission accept Staff's adjustment as the amounts are known and measurable.

(M) Insurance – Workers Compensation. Bath District reported a test year amount of \$8,404 and proposed no changes to the account.⁸² Staff reviewed Bath District's general ledger⁸³ and submitted invoices⁸⁴ and recalculated the expense based on the submitted invoices and recommends a decrease of \$257 to the test year amounts to match the most recent invoices. Staff recommends the Commission accept Staff's proposed adjustment because it is known and measurable.

(N) Miscellaneous. Bath District reported \$5,154 of expenses related to Miscellaneous expense and proposed no adjustments.⁸⁵ Staff reviewed the general ledger⁸⁶ and made one adjustment to decrease Miscellaneous expense by \$4,572. The expense (Online Spectrum Line Repair hit during the meter set)⁸⁷ occurred during the test

⁷⁹ Bath District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account Number 657-005.

⁸⁰ Bath District's Response to Staff's First Request, Item 5 at 1, 12.

⁸¹ Bath District's Response to Staff's First Request, Item 5 at 12

⁸² Application, Exhibit 3, Statement of Adjusted Operations at 1.

⁸³ Bath District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account Number 658-005.

⁸⁴ Bath District's Response to Staff's First Request, Item 5 at 6, 11.

⁸⁵ Application, Exhibit 3, Statement of Adjusted Operations.

⁸⁶ Bath District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account Number 675-000.

⁸⁷ Bath District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account Number 675-000.

year and is non-recurring.⁸⁸ Staff recommends Commission accept Staff's adjustment because the proposed amount is known and measurable.

(O) Depreciation. Bath District reported \$466,780 of expenses related to Depreciation and proposed four adjustments.⁸⁹ First, it increased Depreciation expense by \$674, as discussed above in Materials and Supplies; the amount has been capitalized for depreciation.⁹⁰ Staff agrees with Bath District's adjustment and recommends the Commission accept it.

Second, Bath District proposed an adjustment to decrease Depreciation expense by \$27,491 (O1).⁹¹ Bath District stated that it accrued the depreciation amount of \$27,491 on "Communication Equipment" with an original cost of \$373,291. The accrual has resulted in full accumulation of depreciation for this asset group after the test year, and this expense will not recur in future periods.⁹² Staff reviewed the Depreciation Schedule provided by the Bath District and agrees with removing \$27,491.

The third proposed adjustment was an increase to Depreciation expense of \$62,852 (O2).⁹³ In Case No. 2023-00097, by Order dated June 29, 2023, Bath District was authorized to finance the cost of 1) rehabilitating six water storage facilities; 2) rehabilitating the Midland Pump Station; and 3) reconstruction of the Ore Mines Pump

⁸⁸ A non-recurring expense should not be expected to be a normal operating expense and should not be included in the pro forma or be recovered in expense on an annual basis.

⁸⁹ Application, Exhibit 3, Statement of Adjusted Operations.

⁹⁰ Application, Exhibit 3, Statement of Adjusted Operations.

⁹¹ Application, Exhibit 3, Statement of Adjusted Operations.

⁹² Application, Application, Exhibit 3, References, Reference N.

⁹³ Application, Exhibit 3, Statement of Adjusted Operations.

Station.⁹⁴ This adjustment was made to account for 2025 additions to Bath District's Depreciation Schedule and to bring asset lives to the midpoint of the ranges recommended by National Association of Regulatory Utility Commissioners (NARUC) in its publication "Depreciation for Small Utilities." 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 NARUC ranges, the commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.⁹⁵ Staff reviewed the Depreciation Schedule provided by the Bath District and determined Bath District had not used asset lives to the midpoint of the ranges recommended by NARUC. Staff recalculated the depreciation amount using NARUC's midpoint ranges as shown below and recommends an adjustment of \$51,492 (O2) which is a \$11,360 decrease from Bath District's proposed adjustment.

The fourth adjustment Bath District proposed was an increase Depreciation expense by \$18,864 (O3).⁹⁶ Bath District purchased 786 meters with a total cost of \$188,640 and proposed a service life of 10 years.⁹⁷ Bath District stated that the Water Meters included a 10-year full replacement warranty that supports the 10-year

⁹⁴ Case No. 2023-00097, *Electronic Application of Bath County Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Improvement Projects Pursuant to 278.020 and 278.300* (Ky. PSC June. 29, 2023), Order at 13-15.

⁹⁵ 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.

⁹⁶ Application, Exhibit 3, Statement of Adjusted Operations.

⁹⁷ Application, Application, Exhibit 3, References, Reference P.

depreciable life, and the meters had a partial warranty for an additional ten years.⁹⁸ It also stated that the register of the Water Meter includes a built-in radio read communication device that is inseparable from the meter's register, and it was recorded as part of the Utility Plant subsidiary account Communication Equipment.⁹⁹ Unless evidence is supplied to justify a different useful life, the Commission has previously determined that radio read Meters should be depreciated over a 20-year service life.¹⁰⁰ Since Bath District did not provide any other information to justify the proposed 10-year service life, Staff calculated depreciation for the meters over a 20-year service life. Staff notes that a warranty is not necessarily indicative of useful life. Staff recommends the Commission accept Staff's adjustment to Depreciation because the amount is known and measurable.

Asset Category	Bath District's Service Life	NARUC Recommended Service Life		Original Cost	Bath District's Calculation	Staff Calculated Depreciation	Depreciation Adjustment	Pro Forma Depreciation
		Rage	Age					
Pumping Equipment	20		20	841,336	\$ 42,067	\$ 42,067	\$ -	\$ 42,067
Structures & Improvements	40		37.5	12,032	301	321	20	321
Water Storage Tank Rehabilitations	20		45	409,685	20,484	9,104	(11,380)	9,104
Total					<u>\$ 62,852</u>	<u>\$ 51,492</u>	<u>\$ (11,360)</u>	<u>\$ 51,492</u>
Meters	10		20	188,640	18,864	9,432	(9,432)	9,432
Total					<u>\$ 18,864</u>	<u>\$ 9,432</u>	<u>\$ (9,432)</u>	<u>\$ 9,432</u>

(P) Taxes Other Than Income. Bath District reported \$38,894 of expenses related to Taxes Other Than Income and proposed a reduction of \$8,583.¹⁰¹ As stated above in Employee Benefits above, the \$8,583 amount was reclassified to the appropriate

⁹⁸ Bath District's Response to Staff's First Request, Item 23

⁹⁹ Bath District's Response to Staff's First Request, Item 23.

¹⁰⁰ Case No. 2024-00061, *Electronic Application of Butler County Water Systems, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 1, 2024), Order at 9-20. Case No 2024-00068, *Electronic Application of Simpson County Water District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Oct. 29, 2024), Order at 21-22.

¹⁰¹ Application, Exhibit 3, Statement of Adjusted Operations.

account. Due to the changes in Salaries and Wages, Staff made an adjustment to increase the Taxes Other than Income by \$1,407 (P1). The adjustment results in a pro forma test year amount of \$31,718. Staff recommends the Commission accept Staff's adjustment as it is known and measurable.

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expense; (2) recovery of depreciation expense, a non-cash item, to provide working capital;¹⁰² (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

¹⁰² The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 725 (Ky.1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

Description	Bath County Water District	Commission Staff
Pro Forma Operating Expenses	\$ 3,449,953	\$ 3,402,548
Average Annual Principal and Interest Payments	111,580	111,580
Additional Working Capital at 20%	22,316	22,316
Interest On Customer Deposits	5,188	5,188
Total Revenue Requirement	3,589,037	3,541,632
Other Revenue ()	(57,377)	(58,737)
Interest Income ()	(2,931)	(2,931)
Revenue from Sewer Billing Service	(22,651)	(22,651)
Revenue Required From Water Sales	3,506,078	3,479,964
Revenue from Sales at Present Rates ()	(2,601,846)	(3,276,902)
Required Revenue Increase / (Decrease)	\$ 904,232	\$ 203,062
Percentage Increase / (Decrease)	34.75%	6.20%

1. Average Annual Principal and Interest Payments. Bath District requested to recover debt service of \$111,580 on two loans from United States Department of Agriculture Rural Development Bonds and two Kentucky Infrastructure Authority (KIA) loans on three-year average of the annual principal, interest, and fee payments for the years 2026 through 2028.¹⁰³ Staff agrees with the methodology Bath District proposed is reasonable and recommends Commission accept the Bath District's proposed amount.

Description/Year	2026	2027	2028	Total
Bond Series 2004	\$ 27,027	\$ 26,992	\$ 26,934	\$ 80,954
Bond Series 2009	10,501	10,358	10,216	31,074
KIA #F16-011	36,818	36,735	36,652	110,204
KIA #B22-003	37,559	37,503	37,444	112,506
Total	\$ 111,904	\$ 111,588	\$ 111,246	\$ 334,738

Three Year Average \$ 111,580

¹⁰³ Application, Exhibit 3, Schedule C, Debt Service Schedule.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance of additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its exhibits, Bath District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments, or \$22,316.¹⁰⁴ Following the Commissions historic practice¹⁰⁵ of including additional working capital, Staff agrees with Bath District's proposed methodology.

Description	Amount
Average Annual Principal and Interest	\$ 111,580
Times: DSC Coverage Ratio	20%
Additional Working Capital	<u>\$ 22,316</u>

¹⁰⁴ Application, Exhibit 3, Calculation of Overall Revenue Requirement and Required Revenue Increase.

¹⁰⁵ Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Nov. 17, 2023). Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024). Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).

Signatures

/s/ Vinay Raj Raju

Prepared by: Vinay Raj Raju
Revenue Requirement Branch
Division of Financial Analysis

/s/ Elizabeth Stefanski

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

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00132 DATED SEP 15 2025

* Denotes Rounding

Nonrecurring Charges Adjustments		
	Connection Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.66 at 1 hours)	\$46.66	
Office Supplies		
Office Labor	\$18.00	
Transportation	\$27.51	\$27.51
Misc.		
Total Revised Charge*	<u>\$92.17</u>	<u>\$27.50</u>
Current Rate	\$27.50	

	Connection Charge After Hours Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$63.16 @ 1 hour)	\$63.13	\$63.13
Office Supplies		
Office Labor (\$20 at 1 hours)	\$18.00	
Transportation	\$27.51	\$27.51
Shipping and Testing		
Total Revised Charge*	<u>\$108.64</u>	<u>\$91.00</u>
Current Rate	\$70.00	

	Field Collection Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.66 at 1 hours)	\$46.66	
Office Supplies		
Office Labor	\$18.00	
Transportation	\$27.51	\$27.51
Misc.		
Total Revised Charge*	<u>\$92.17</u>	<u>\$27.50</u>
Current Rate	\$27.50	

	Field Collection After Hours Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$63.16 @ 1 hour)	\$63.13	\$63.13
Office Supplies		
Office Labor (\$20 at 1 hours)	\$18.00	
Transportation	\$27.51	\$27.51
Shipping and Testing		
Total Revised Charge*	<u>\$108.64</u>	<u>\$91.00</u>
Current Rate	\$70.00	

	Meter Re-read Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.66 at 1 hours)	\$46.66	
Office Supplies		
Office Labor	\$18.00	
Transportation	\$27.51	\$27.51
Misc.		
Total Revised Charge*	<u>\$92.17</u>	<u>\$27.50</u>
Current Rate	\$27.50	

	Meter Re-read Charge After Hours Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$63.16 @ 1 hour)	\$63.13	\$63.13
Office Supplies		
Office Labor (\$20 at 1 hours)	\$18.00	
Transportation	\$27.51	\$27.51
Shipping and Testing		
Total Revised Charge*	<u>\$108.64</u>	<u>\$91.00</u>
Current Rate	\$70.00	

	Meter Test Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.66 at 1 hours)	\$46.66	
Office Supplies		
Office Labor	\$18.00	

Transportation	\$27.51	\$27.51
Misc.		
Total Revised Charge*	<u>\$92.17</u>	<u>\$27.50</u>
Current Rate	\$27.50	

	Reconnection Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.66 at 1 hours)	\$46.66	
Office Supplies		
Office Labor	\$18.00	
Transportation	\$27.51	\$27.51
Misc.		
Total Revised Charge*	<u>\$92.17</u>	<u>\$27.50</u>
Current Rate	\$27.50	

	Reconnection Charge After Hours Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$63.16 @ 1 hour)	\$63.13	\$63.13
Office Supplies		
Office Labor (\$20 at 1 hours)	\$18.00	
Transportation	\$27.51	\$27.51
Shipping and Testing		
Total Revised Charge*	<u>\$108.64</u>	<u>\$91.00</u>
Current Rate	\$70.00	

	Service Call Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.66 at 1 hours)	\$46.66	
Office Supplies		
Office Labor	\$18.00	
Transportation	\$27.51	\$27.51
Misc.		
Total Revised Charge*	<u>\$92.17</u>	<u>\$27.50</u>
Current Rate	\$27.50	

Service Call Charge After Hours

	Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$63.16 @ 1 hour)	\$63.13	\$63.13
Office Supplies		
Office Labor (\$20 at 1 hours)	\$18.00	
Transportation	\$27.51	\$27.51
Shipping and Testing		
Total Revised Charge*	<u>\$108.64</u>	<u>\$91.00</u>
Current Rate	\$70.00	

	Service Line Inspection Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.66 at 1 hours)	\$46.66	
Office Supplies		
Office Labor	\$18.00	
Transportation	\$27.51	\$27.51
Misc.		
Total Revised Charge*	<u>\$92.17</u>	<u>\$27.50</u>
Current Rate	\$27.50	

	Service Line Inspection After Hours Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$63.16 @ 1 hour)	\$63.13	\$63.13
Office Supplies		
Office Labor (\$20 at 1 hours)	\$18.00	
Transportation	\$27.51	\$27.51
Shipping and Testing		
Total Revised Charge*	<u>\$108.64</u>	<u>\$91.00</u>
Current Rate	\$70.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00132 DATED SEP 15 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 Bath County Water District. 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	\$22.16	Minimum Bill
Next	3,000 Gallons	0.00905	Per Gallon
Next	5,000 Gallons	0.00755	Per Gallon
Next	10,000 Gallons	0.00682	Per Gallon
Next	30,000 Gallons	0.00657	Per Gallon
Over	50,000 Gallons	0.00644	Per Gallon

1-Inch Meter

First	10,000 Gallons	\$87.60	Minimum Bill
Next	10,000 Gallons	0.00682	Per Gallon
Next	30,000 Gallons	0.00657	Per Gallon
Over	50,000 Gallons	0.00644	Per Gallon

2-Inch Meter

First	50,000 Gallons	\$353.87	Minimum Bill
Over	50,000 Gallons	0.00644	Per Gallon

Bulk
Sales

0.01129 Per Gallon

Leak Adjustment Rate

0.00539 Per Gallon

Wholesale Rates

Sharpsburg Water District

0.00637 Per Gallon

City of Frenchburg

0.00556 Per Gallon

City of Owingsville

\$4,906.70 Minimum Bill

0.00551 Per Gallon

Nonrecurring Charges

Connection Charge	\$27.50
Connection Charge After Hours	\$91.00
Field Collection	\$27.50
Field Collection After Hours	\$91.00
Late Payment Penalty	10%
Meter Re-read Charge	\$27.50
Meter Re-read Charge After Hours	\$91.00
Meter Relocation Charge	Actual
Meter Test Charge	\$27.50
Reconnection Charge	\$27.50
Reconnection Charge After Hours	\$91.00
Service Call Charge	\$27.50
Service Call Charge After Hours	\$91.00
Service Line Inspection	\$27.50
Service Line Inspection After Hours	\$91.00

Meter Connection/Tap On Charges

5/8 x 3/4 Inch Water Tap On	\$1,175.00
5/8 x 3/4 Inch Tandem Service	\$1,343.00
All Larger Meters	Actual Cost

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21 Church Street
P. O. Box 369
Salt Lick, KY 40371

*Christy Creech
Manager
Bath County Water District
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