

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MCCREARY	)	
COUNTY WATER DISTRICT FOR AN	)	CASE NO.
ADJUSTMENT OF SEWER RATES PURSUANT	)	2025-00135
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 June 9, 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 June 9, 2025, Order, McCreary County Water District (McCreary 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 McCreary 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 **OCT 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 MCCREARY COUNTY WATER DISTRICT

McCreary County Water District (McCreary District) is a water and sewer utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 5,786 residential customers, 249 commercial customers, 6 industrial customers and 244 public authorities that reside in McCreary County, Kentucky.¹ McCreary District's sewer division owns and operates sewage facilities in McCreary County, Kentucky, that serve approximately 1,019 residential customers, 181 commercial customers, 5 industrial customers, and 100 public authorities.²

Pursuant to Section 4 of 807 KAR 5:006, utilities are required to file annual reports for the prior calendar year by March 31. McCreary District's 2023 Annual Report for Sewer was filed on May 24, 2024. On March 13, 2025, McCreary District submitted a

¹ *Annual Report of McCreary County Water District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2023 (2023 Water Division Annual Report)*, at 12 and 49.

² *Annual Report of McCreary County Water District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2023 (2023 Sewer Division Annual Report)* at 9 and 25.

request for an extension of time to submit its annual reports for the year ending December 31, 2024.³ On March 18, 2025, the Commission granted this request and authorized McCreary District to submit its annual reports no later than May 30, 2025.⁴

On May 16, 2025, McCreary District concurrently filed two applications with the Commission requesting an adjustment to its sewer service rates and its water service rates⁵ pursuant to 807 KAR 5:076. Given the request and granting of the extension referenced above, to comply with the requirements of 807 KAR 5:076, Section 9,⁶ McCreary District used the calendar year ended December 31, 2023, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2022-00009 that required McCreary District to file an application for an adjustment of its base rates for its water and sewer divisions by September 30, 2025,⁷ which would be within three years of the issuance of the final Order in Case Number 2021-00300.⁸ McCreary District's last base rate increase pursuant to the alternative rate filing procedure

³ Application, Application_Sewer.pdf, at 5, Addendum to Application, Exhibit 1 to addendum to application.

⁴ Application, Application_Sewer.pdf, at 5, Addendum to Application, Exhibit 2 to addendum to application.

⁵ Case No. 2025-00136, *Electronic Application of McCreary County Water District for an Adjustment of Water Rates Pursuant to 807 KAR 5:076*.

⁶ 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.

⁷ Case No. 2022-00009, *Electronic Application of McCreary County Water District to Issue Securities in the Approximate Principal Amount of \$3,450,000 for the Purpose of Refinancing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Mar. 16, 2022), Order at 8, ordering paragraph 6.

⁸ Case No. 2021-00300, *Electronic Application of McCreary County Water District for an Alternative Rate Adjustment*, (Ky. PSC Sept. 30, 2022), Order.

was in Case No. 2021-00300.⁹ Since that matter, McCreary District has not sought to adjust its rates. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated June 9, 2025.

McCreary District responded to three requests for information from Staff,¹⁰ as well as filing two supplemental responses to Staff's first request.¹¹ One public comment was filed which objected to McCreary District's requested increase in rates due to waste and a failure to do preventative maintenance.¹²

DISCUSSION

Using its pro forma test-year operations, McCreary District determined that a base rate revenue increase of \$70,066, or 3.1 percent,¹³ was necessary to achieve the revenue requirement as shown in the table below.¹⁴

⁹ Case No. 2021-00300, Sept. 30, 2022 Order.

¹⁰ McCreary District's Response to Staff's First Request for Information (Staff's First Request) (filed July 14, 2025). McCreary District's Response to Staff's Second Request for Information (Staff's Second Request) (filed Aug. 21, 2025). McCreary District's Response to Staff's Third Request for Information (Staff's Third Request) (filed Sept 2, 2025).

¹¹ McCreary District's First Supplemental Response to Staff's First Request (filed Sept 17, 2025). McCreary District's Second Supplemental Response to Staff's First Request (filed Oct. 3, 2025).

¹² 20250522_Response E-Mail to Kevin D. Tucker.pdf.

¹³ McCreary District rounded the Percentage Increase to 3.1 Percent. The unrounded amount is 3.12 percent.

¹⁴ Application, Application_Sewer.pdf, Exhibit C, Revenue Requirements Sewer Division.

Description	McCreary District - Sewer
Pro Forma Operating Expenses	\$ 2,156,186
Average Annual Principal and Interest Payments	223,148
Additional Working Capital at 20%	44,630
Total Revenue Requirement	2,423,964
Other Revenue ()	(40,072)
Interest Income ()	(3,218)
Miscellaneous Nonoperating Income ()	(68,014)
Revenue Required From Sewer Sales	2,312,660
Revenue from Sales at Present Rates ()	(2,242,594)
Required Revenue Increase / (Decrease)	<u>\$ 70,066</u>
Percentage Increase / (Decrease)	<u>3.12%</u>

To determine the reasonableness of the rates requested by McCreary District, Staff performed a limited review of McCreary District's test-year operations. The scope of Staff's review was limited to determining whether operations recorded for the test year were representative of normal operations. Known and measurable¹⁵ 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.

¹⁵ 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).

Staff's recommendations are summarized in this report. William Foley reviewed the calculation of McCreary District's Overall Revenue Requirement, and Manuel Jerez Tamayo reviewed McCreary District's recorded revenues and rate design.

SUMMARY OF RECOMMENDATIONS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Staff determined that McCreary District's required revenue from Sewer Sales is \$2,234,931 compared to the Revenue from Sales at Present Rates of \$2,242,595 which results in an excess of pro forma revenues of \$7,664, or 0.34 percent. While Staff calculated a minimal decrease in McCreary District's rates, it acknowledges that utilities have experienced operational cost increases due to recent supply chain issues and the current rate of inflation. Staff believes it to be reasonable maintain McCreary District's current sewer rates rather than to minimally decrease them.

2. Monthly Water Service Rates. In its application, McCreary District proposed to increase its monthly sewer rates 3.12 percent.¹⁶ Staff's calculated decrease in the revenue requirement of 0.34 percent results in a typical monthly sewer bill for a customer using approximately 5,301 gallons per month decreasing by \$0.22 from \$64.62 to \$64.40, or 0.34 percent. The rates presented below are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from sewer sales to recover the \$2,234,931 required from rates. However, Staff does not believe reducing the rates for a 0.34 percent revenue decrease is currently necessary. McCreary District

¹⁶ Application, Exhibit C (filed June 17, 2025).

proposed 3.12 percent increase in monthly sewer rates be denied, and that McCreary District maintain its current rates unchanged as they appear in its tariff.

<u>CURRENT RATE SCHEDULE</u>				<u>CALCULATED RATES</u>			
<u>All Retail Customers</u>				<u>All Retail Customers</u>			
First	2,000	gallons	\$ 30.03 Minimum Bill	First	2,000	gallons	\$ 29.93 Minimum Bill
Next	18,000	gallons	\$ 0.01048 Per gallon	Next	18,000	gallons	\$ 0.01044 Per gallon
Over	20,000	gallons	\$ 0.00931 Per gallon	Over	20,000	gallons	\$ 0.00928 Per gallon
<u>Federal Correctional Facility</u>				<u>Federal Correctional Facility</u>			
First	1,300,000	gallons	\$ 12,044.27 Minimum Bill	First	1,300,000	gallons	\$ 12,003.32 Minimum Bill
Over	1,300,000	gallons	\$ 0.01048 Per gallon	Over	1,300,000	gallons	\$ 0.01044 Per gallon

3. Nonrecurring Charges. Staff reviewed McCreary District's Nonrecurring Charges. McCreary District did not provide cost justification information for the Nonrecurring Charges, as all of them are performed at actual cost but provided a list of the number and occurrences for each of its nonrecurring charges.¹⁷ In 2023 McCreary District transitioned to a new billing system. During this transition, McCreary District experienced issues with data loss, errors in the recording of transactions, and delays in the issuance of bills.¹⁸ As a result, inconsistencies between McCreary District's recorded revenue and actual revenue for calendar 2023 may exist.¹⁹

McCreary District's sewer division does not assess a Returned Check Fee. The water division assesses a returned check fee for all dishonored payments. If a check for payment for water and sewer is dishonored, one half of the returned Check Fee is required to be allocated to the sewer division.²⁰ McCreary water division reported 14 late

¹⁷ McCreary District's Response to Staff's First Request, Item 18.

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

¹⁹ McCreary District's Response to Staff's First Request, Item 18.

²⁰ McCreary District's Response to Staff's First Request, Item 18.

returned check occurrences²¹ and should record \$126 of which half, or \$63, should be allocated to the sewer division.

Charge	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Connection Fee (Actual Cost)	8	Actual Cost	Actual Cost	\$ 32,000	\$ 32,000
Return Check Fee	0	\$0.00	\$0.00	12	63
Facility Relocation (Actual Cost)	1	\$857.00	\$857.00	0	857
Industrial User Permit	1	\$4,000	\$4,000	4,000	4,000
Pro Forma Test Year NRC Revenue				<u>\$ 36,012</u>	36,920
Test Year NRC Revenue ()					(908)
Adjustment					<u>\$ 36,012</u>

PRO FORMA OPERATING STATEMENT

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

²¹ Case 2025-00136, McCreary District's Response to Staff's First Request, Item 18. P.S.C. KY. 2, Sheet No. 2 (issued Oct. 18, 2022), effective Sept. 30, 2022.

Description	Test Year	McCreary District - Sewer		Total Adjustments	(Ref)	Pro Forma
		Proposed Adjustments	Commission Staff Adjustments			
Operating Revenues						
Residential Revenues	\$ 503,276			\$ -		\$ 503,276
Commercial Revenues	233,425			-		233,425
Industrial Revenues	75,604			-		75,604
Revenues from Public Authorities	1,197,643	232,647		232,647	(A)	1,430,290
Miscellaneous Sewer Revenues	40,072	-	29,757	29,757	(B)	69,829
Total Operating Revenues	2,050,020	232,647	29,757	262,404		2,312,424
Operating Expenses						
Operation and Maintenance						
Collection - Labor, Materials and Expenses	83,195			-		83,195
Fuel and Power for Pumping and Treatment	172,532			-		172,532
Chemicals	203,228			-		203,228
Maintenance Expenses						
Maintenance of Collection Sewer System	1,297			-		1,297
Maintenance of Pumping System	258,634	-	(123,329)	(123,329)	(F)	135,305
Maintenance of Other Plant Facilities	47,605	-	(21,654)	(21,654)	(F)	25,951
Uncollectable Accounts	5,181			-		5,181
Administrative and General Expenses						
Administrative and General Salaries	473,719	(158,296)	40,280	(118,016)	(C)	355,703
Office Supplies and Other Expenses	11,819					11,819
Outside Services Employed	185,287					185,287
Insurance Expense	112,556					112,556
Employee Benefits	14,364	1,661	57,336	58,997	(D)	73,361
Employee Pensions	76,165	(20,084)	(5,694)	(25,778)	(E)	50,387
Regulatory Commission Expense	291			-		291
Transportation Expense	34,811			-		34,811
Miscellaneous General Expenses	14,049			-		14,049
Amortization	-	602	5,299	5,901	(G)	5,901
Total Sewer Operation and Maintenance Expenses	1,694,733	(176,117)	(47,762)	(223,879)		1,470,854
Depreciation Expense	619,737	(6,297)	13,552	7,255	(H)	645,476
Taxes Other Than Income	37,950	(13,820)	-	(13,820)	(I)	24,130
Total Operating Expenses	2,352,420	(196,234)	(15,726)	(211,960)		2,140,460
Net Operating Income	(302,400)	428,881	45,483	474,364		171,964
Interest Income	3,218	-	-	-		3,218
Income Available to Service Debt	\$ (299,182)	\$ 428,881	\$ 45,483	\$ 474,364		\$ 175,182

(A) Billing Analysis. McCreary District proposed an increase in revenues of \$232,647²² due to a sewer rate increase effective September 30, 2022, with additional phase-in increases in the following two years on the same date, approved Case No. 2021-

²² Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment A.

00300.²³ This adjustment will increase the amount indicated in the billing analysis. Staff reviewed the submitted billing analysis and agrees with McCreary District's proposed adjustment. Staff recommends the Commission accept McCreary District's proposed adjustment to increase the revenues as the amount meets the ratemaking criteria of being known and measurable.

(B) Other Water Revenues – Miscellaneous Sewer Revenues. During the test year, McCreary District recorded \$40,072 for Miscellaneous Sewer Revenues.²⁴ Miscellaneous Sewer Revenues are composed of three subparts: late payment fees (Forfeited Discounts), nonrecurring charges, and other revenues.

Forfeited Discounts. In the application, McCreary District recorded \$10,890 for Penalties, as part of Miscellaneous Service Revenue.²⁵ McCreary District stated that during 2023 it transitioned to a new billing system, experienced billing and recording issues, and that the recorded other revenues could be inconsistent with actual amounts collected.²⁶ McCreary District reported 1,817 occurrences and collected \$32,884.²⁷ In order to account for all the late fees collected that were not properly recorded as a result of the billing software transition, Staff increased Forfeited Discounts by \$21,994,²⁸ to match the total late fees collected during the test year of \$32,884. Staff recommends the

²³ Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment A.

²⁴ Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations.

²⁵ McCreary District's Response to Staff's First Request, Item 5.

²⁶ McCreary District's Response to Staff's First Request, Item 18.

²⁷ McCreary District's Response to Staff's First Request, Item 17.

²⁸ \$32,884 total amount collected less \$10,890 Total amount recorded = \$21,994 total amount needed to record the total amount collected.

Commission accept Staff's increase to Miscellaneous Service Revenues because the amount accounts for all late fees collected during the test year that may have been lost during the transition to the new system.

Nonrecurring Charges. In its application, McCreary District included \$908 of Nonrecurring Charges as part of the total Miscellaneous Service Revenues of \$40,072.²⁹ As discussed in the nonrecurring charge section of the Summary of Recommendations, if a check for payment for water and sewer service is not honored, one-half of the Return Check Fee is required to be allocated to the water division and one half is required to be allocated to the sewer division.³⁰ Staff reviewed the Cost justification sheets supplied for each nonrecurring charge and, given the lack of evidence supporting the additional costs, removed normal business hour field labor and office/clerical labor costs³¹ and determined that pro forma Nonrecurring Charges should be \$36,920. To achieve the Staff's pro forma nonrecurring charges, Staff increased McCreary District's \$908 test year nonrecurring charges by \$36,012 since the Connection Fees and Industrial User Permits were not included in the test year total. Staff recommends the Commission accept Staff's adjustment to Miscellaneous Service Revenues because the amount meets the ratemaking criteria of being known and measurable.

²⁹ McCreary District's Response to Staff's First Request, Item 5.

³⁰ McCreary District's Response to Staff's First Request, Item 18.

³¹ Case No. 2023-00299, *Electronic Application of Magoffin County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 24, 2024); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 5, 2024); Case No. 2023-00258, *Electronic Application of Kirksville Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00220, *Electronic Application of East Casey County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 21, 2024).

Other Revenues. In its application, McCreary District recorded \$28,274 for Nonrecurring Revenues as part of Miscellaneous Service Revenues, \$40,072.³² The \$28,274 of Nonrecurring Revenues is partially composed of \$16,129 for Sales of Excess Pipe, and (\$3,425) for adjustments because of change in Billing Programs.³³ These are considered unusual transactions, or not expected to reoccur, and, thus, should be removed from the test year.³⁴ The reimbursements from Fibrotex for testing and related costs for Industrial user pretreatment program, because it is a reimbursement, should not be considered revenue and should be removed from the pro forma calculation. Staff recommends the Commission accept Staff's adjustment to decrease Miscellaneous Service Revenues by \$12,704, since the amounts recorded are either not revenues or are unusual, nonrecurring transactions, as shown in the following table.

Miscellaneous Sewer Revenues	Test Year	McCreary District - Sewer Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	Pro Forma
Penalties	\$ 10,890	\$ -	\$ 21,994	\$ 21,994	\$ 32,884
<i>Nonrecurring Charges</i>					
Total Nonrecurring Charges	908	-	36,012	36,012	36,920
<i>Other Revenues</i>					
Sewer Installation Payment	25	-	-	-	25
Fibrotex Reimbursements	15,545	-	(15,545)	(15,545)	-
Sale of Excess Pipe	16,129	-	(16,129)	(16,129)	-
Adjustment Due to Change in Billing Program	(3,425)	-	3,425	3,425	-
Total Miscellaneous Service Revenues	28,274	-	(28,249)	(28,249)	25
Total Other Revenues	\$ 40,072	\$ -	\$ 29,757	\$ 29,757	\$ 69,829

³² McCreary District's Response to Staff's First Request, Item 5. \$40,072 Total Miscellaneous Service Revenues less \$10,890 for Penalties and \$908 for Nonrecurring Charges (\$51 for Returned Check fees and \$859 for Reimbursement of cost to move sewer line) = \$28,274.

³³ McCreary District's Response to Staff's First Request, Item 5.

³⁴ McCreary District's Response to Staff's First Request, Item 5.

The net effect of the above adjustments results in a pro forma Miscellaneous Sewer Revenues of \$85,371, as shown in the above table, which is a net increase of \$45,299 to McCreary District's test year amount of \$40,072.

(C) Administrative and General Salaries. McCreary District recorded \$473,719 in salaries and wages during the test year and proposed one adjustment.³⁵ This adjustment was a reduction of \$158,296 to reflect changes in wage rates and the allocation of salaries from the sewer division to the water division.³⁶ McCreary District stated it had four full-time and two part-time employees in its sewer division,³⁷ although Staff determined there should have been three part-time employees included based on the information provided.³⁸ McCreary District also proposed to allocate a portion of salaries from its office staff and commissioners to the sewer division.³⁹ McCreary District proposed to use the number of customers to allocate these amounts.⁴⁰ Staff agrees with the methodology and assigned 17.19 percent of office staff and commission wages to the Sewer Division and 100 percent of the sewer wages to the Sewer Division. McCreary District stated full-time employees worked 2,080 regular time hours annually.⁴¹ Staff used

³⁵ Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment B.

³⁶ Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment B.

³⁷ McCreary District's Response to Staff's First Request, Item 6a.

³⁸ McCreary District's Response to Staff's First Request, 1-6 Employee Information Excel Document, Current Employee Wage Rates Tab.

³⁹ McCreary District's Response to Staff's First Request, Rate Study Model Excel Document, Wages Tab.

⁴⁰ McCreary District's Response to Staff's First Request, Rate Study Model Excel Document, Wages Tab.

⁴¹ McCreary District's Response to Staff's First Request, Item 6b.

the test-year information to determine the average hours worked by part-time employees.⁴²

McCreary District pays each of its five commissioners \$6,000 annually, resulting in total commissioner payments of \$30,000.⁴³ Staff also used the number of customers to allocate McCreary District's commissioner wages to the sewer division, which results in \$5,160 being allocated to the sewer division.⁴⁴ McCreary District provided the training records,⁴⁵ and fiscal court minutes appointing its commissioners⁴⁶ and authorizing their current pay.⁴⁷ Staff recommends including McCreary District's commissioner pay because McCreary District provided all the required information and because the amount is known and measurable.

Staff calculated McCreary District's pro forma salaries and wages for sewer is \$355,703 as shown in the tables below. The Pro Forma Calculation Chart shows the calculation of the non-commissioner salaries and wages. The Wage Adjustments Chart shows the adjustments from the test year to pro forma amounts.

⁴² Application, Rate Study, Wages Tab.

⁴³ Case 2025-00136, McCreary District's Response to Staff's First Request, Item 10, Attachment.

⁴⁴ McCreary District's Response to Staff's First Request, Item 4, 002_RateStudy.xlsx, Wages Tab, Cell B79.

⁴⁵ McCreary District's Response to Staff's First Request, Item 10c.

⁴⁶ McCreary District's Response to Staff's First Request, Item 10b, Attachment.

⁴⁷ McCreary District's Response to Staff's First Request, Item 10b, Attachment.

<i>Pro Forma Calculation</i>							
Description	Office Employees			Sewer Employees			Total
	Full Time	Part Time	Sub-Total	Full Time	Part Time	Sub-Total	
Pro Forma Non-Salary							
Employee Count	6	3	9	4	3	7	16
Normalized Hours	2,080	1,359		2,080	1,441		
Total Normalized Hours	12,480	4,078	16,558	8,320	4,322	12,642	29,200
Average Current Wage Rate	\$ 22.43	\$ 16.27		\$ 22.03	\$ 14.51		
Regular Hours Wages	279,864	66,349	346,213	183,290	62,719	246,009	592,222
Overtime Hours	834.00	59.00	893.00	328.00	255.50	583.50	1,476.50
Current Overtime Wage Rate	33.64	24.41		33.05	21.77		
Overtime Hours Wages	28,054	1,440	29,494	10,839	5,562	16,401	45,895
Non-Salary Total Wages	307,918	67,789	375,707	194,128	68,282	262,410	638,117
Salary Wages	136,992	-	136,992	-	-	-	136,992
Total Wages	444,910	67,789	512,699	194,128	68,282	262,410	
Allocation Factor for Sewer	17.19%	17.19%	17.19%	100%	100%	100%	
Allocated Office Wages	\$ 76,480	\$ 11,653	\$ 88,133	\$ 194,128	\$ 68,282	\$ 262,410	\$ 350,543

<i>Wage Adjustments</i>	
Description	Amount
Office Wages	\$ 88,133
Sewer Wages	262,410
Commissioner Wages	5,160
Total Administrative and General Salaries	355,703
Test Year Administrative and General Salaries ()	(473,719)
Administrative and General Salaries Adjustment	(118,016)
McCreary District Adjustment	158,296
Difference	\$ 40,280

Staff recommends the Commission accept Staff's adjustment of a \$118,016 decrease to Administrative and General Salaries, as it is known and measurable change because it reflects the average test-year hours and test-year hours at current average wage rates with current employees.

(D) Employee Benefits – Insurance Premiums. McCreary District pays 100 percent of the cost of the single plan for all regular, full-time employees regardless of plan (employee only, employee and spouse, employee and family).⁴⁸ In its application,

⁴⁸ McCreary District's Response to Staff's Second Request, Item 7.

McCreary District proposed to increase Employee Benefits by \$1,661⁴⁹ due to the net increase in monthly premiums and allocation of expense to the sewer division.⁵⁰

McCreary District proposed to allocate the insurance premiums between the water and sewer based on the total insurance paid during the test year.⁵¹ Given that other adjustments were allocated pursuant to the number of customers, Staff disagreed with the allocation methodology proposed by McCreary District based upon insurance premiums amounts, as no justification was provided to support why this allocation methodology was reasonable to address the proposed allocation percentages.⁵² Since the allocation for other employee related costs such as Salaries and Wages are based upon the number of customers, the Employee Benefits - Insurance allocation should be the same.

As discussed in the Administrative and General Salaries' adjustment, McCreary District currently has a total of 38 employees,⁵³ the water division has 16 full-time employees,⁵⁴ and the sewer division has 4 full-time employees,⁵⁵ while 6 full-time

⁴⁹ Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment C.

⁵⁰ Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment C.

⁵¹ Application, 002_RateStudy.xlsx, Medical Tab. Rows 62-64.

⁵² McCreary District's Response to Staff's First Request, Rate Study Model Excel Document, Medical Tab, Cells E52, E53, and J52.

⁵³ McCreary District's Response to Staff's First Request, item 6, 1-6_EmployeeInformation.xlsx, Employee Cross-Reference Tab.

⁵⁴ Case No. 2025-00136, McCreary District's Response to Staff's First Request, item 6, 1-6_EmployeeInformation.xlsx, 1-6e_CurrentEmployeeWageRates Tab.

⁵⁵ McCreary District's Response to Staff's First Request, Item 6, 1-6_EmployeeInformation.xlsx, 1-6e_CurrentEmployeeWageRates Tab.

employees⁵⁶ work for both the water and sewer divisions. Using the most recent copies of its health, vision, dental, life, and disability insurance invoices⁵⁷ and number of full-time employees, Staff calculated the total current premiums for insurance benefits of \$410,904, then allocated between the Water and sewer division for an allocated total of \$70,634 for the sewer division, which is an increase of \$58,997 from McCreary District's test-year amount of \$11,637. The adjustment is \$57,336 more than the proposed \$1,661, as shown in the table below.

Type of Premium	Number of Employees	Employer Contributions
Employee Only	11	\$ 7,408
Employee Spouse	1	1,400
Employee Child	6	7,210
Family	7	14,881
Administrative Costs	26	156
Dental	27	1,286
Vision	27	345
Life	27	405
Disability	27	1,151
Total Monthly Pro Forma Premium		34,242
Multiplied by: 12 Months		12
Total Annual Insurance Premium		410,904
Sewer Allocation		17.19%
Insurance Allocated to Water Division		70,634
Test Year ()		(11,637)
Staff's Net Adjustment		58,997
Proposed Adjustment ()		(1,661)
Difference		\$ 57,336

Staff recommends the Commission accept Staff's increase of \$58,997, which is \$57,336 more than McCreary District's proposed adjustment, to reflect the annualization of current insurance premiums allocated to the sewer division.

⁵⁶ McCreary District's Response to Staff's First Request, item 6, 1-6_EmployeeInformation.xlsx, 1-6e_CurrentEmployeeWageRates Tab.

⁵⁷ McCreary District's Response to Staff's First Request, Item 7c.

(E) Employee Pensions – CERS. McCreary District participates in the County Employee Retirement System (CERS),⁵⁸ which is managed by the Kentucky Public Pension Authority (KPPA). McCreary District proposed a decrease to Employee Pensions and Benefits in the amount of \$24,259⁵⁹ to reflect a net decrease in contribution rate and the amount for salaries allocated to the sewer division.⁶⁰ Staff calculated three adjustments based on the calculation of the pro forma Salaries and Wages – Employees as well as contribution percentage, and GASB 68 and 75 accounting.

While Staff agrees with McCreary District's methodology, it calculated different adjustments. First, Staff calculated an increase of \$26,169 (E1) for Pension and Other Post Employment Benefits (OPEB) related to GASB 68 and GASB 75, from 2022 to 2023,⁶¹ from McCreary District's test year amount, as shown in the following table.

<i>Change in CERS Retirement Liability (GASB 68 and 75)</i>		
Description	Sewer	
	2022	2023
Deferred Outflow - Pension	\$ 105,548	\$ 156,670
Deferred Outflow - OPEB	67,057	62,411
Liability - Pension ()	(638,715)	(631,591)
Liability - OPEB ()	(174,767)	65,999
Deferred Inflow - Pension ()	(64,394)	(256,635)
Deferred Inflow - OPEB ()	(53,429)	(129,385)
Net Liability	<u>\$ (758,700)</u>	<u>(732,531)</u>
Decrease / (Increase)		<u>\$ 26,169</u>

⁵⁸ McCreary District's Response to Staff's First Request, Item 7.

⁵⁹ Application, Application_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment D.

⁶⁰ Application, Application_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment D.

⁶¹ McCreary District's 2023 Audited Financial Statements, at 36.

In Case No. 2016-00163,⁶² Staff discussed how reporting requirements for GASB 68 would affect a utility's income statement and balance sheet. In that proceeding, the Commission found that the annual pension expense should be equal to the amount of a district's contributions to CERS.⁶³ To provide McCreary District with the amount of their CERS contributions,⁶⁴ Staff added \$26,169 (E1) as an adjustment related to GASB 68 as well as GASB 75, which did not become effective until after GASB 68.

Second, Staff calculated a decrease of \$7,324 (E2) to McCreary District's proposed decrease of \$20,084 to account for the reduction in the CERS contribution rate from the test year.⁶⁵ Next, the decrease in contributable wages resulted in a decrease of \$24,539 (E3) for McCreary District's CERS expense. The adjustments result in a net decrease of \$25,778, which is \$5,694 greater than McCreary District's proposed \$20,084 decrease, as shown in the table below.

⁶² Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11–15.

⁶³ Case No. 2016-00163, Nov. 10, 2016 Order at 11–15.

⁶⁴ Case No. 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of Its Water Rates Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 13, 2022), Order at 11–12.

⁶⁵ CERS Board of Trustees December 4, 2023, Meeting, Minutes, Page 2. CERS Contribution Rate in 2023, the test year, was 26.79 percent and 19.71 percent in current year.

Description	Test Year	Pro Forma
CERS Sewer Wages	\$ 425,244	\$ 270,608
Contribution Rate	25.07%	18.62%
Contributions	106,588	50,387
GASB 68 & 75	(26,169)	-
Immaterial/ Unidentified Amounts	(4,254)	-
Total	<u>\$ 76,165</u>	50,387
Test Year Employee Retirement ()		(76,165)
Total Increase		(25,778)
McCreary District Adjustment ()		20,084
Difference		<u>\$ (5,694)</u>

<i>Reconciliation</i>	McCreary District	Adjustments	(Ref)
GASB 68 & 75	-	26,169	E1
Change in Contribution Rate	(20,084)	(7,324)	E2
Change in Wages	-	(24,539)	E3
Total	<u>\$ (20,084)</u>	<u>\$ (5,694)</u>	

Staff recommends the Commission accept Staff's adjustments as the amounts are known and measurable based on current Salaries and Wages at current contribution levels.

(F) Materials and Supplies. McCreary District recorded test year Maintenance of Pumping System of \$258,634,⁶⁶ and Maintenance of Other Plant Facilities of \$47,605.⁶⁷ During Staff's review of McCreary District's general ledger accounts for Materials and Supplies, Staff identified several expenditures that should have been capitalized. McCreary District agreed some of the items purchased should have been

⁶⁶ Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations.

⁶⁷ Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations.

capitalized.⁶⁸ McCreary District provided an explanation for the identified transactions and explained which portions of the individual transactions should have been capitalized, since not all of the transactions should be completely capitalized.⁶⁹ Accounting Instruction 27 B(1) of the USoA for Class A/B Water Systems states that the cost of retirement units added to utility plant shall be accounted for as provided in Accounting Instruction 21 of the USoA, which provides methodology for capitalization of purchased assets including nonrecurring maintenance expenses that extend the useful life of an asset.⁷⁰ Staff made an adjustment to decrease Maintenance of Pumping System by \$123,329 and Maintenance of General Plant by \$21,654 as shown in the following table.

Further, McCreary District submitted that the use of the NARUC study is not appropriate, since the NARUC study is for water utilities and not for sewer utilities and recommended the use of the *Operation and Maintenance (O&M) Guide for the support of Rural Water - Waste Water Systems and Rural Development (RD) Study*.⁷¹ Staff agreed with the use of the O&M study for the sewer division and made an adjustment to depreciate the cost of each asset over its estimated useful life as part of the Depreciation Expense calculation. This results in a net increase of \$18,484 to Depreciation Expense.

⁶⁸ McCreary District's Response to Staff's Third Request, item 1, Attachment 3-1b.

⁶⁹ McCreary District's Response to Staff's Third Request, item 1, Attachment 3-1b.

⁷⁰ USoA, Accounting Instruction 27 B(1), at 33.

⁷¹ McCreary District's Response to Staff's Third Request, item 1, Attachment 3-1d.

Date	Name	Transaction Amount	Capitalized Amount	Service Life	Annual Depreciation Expense	Asset Category
<i>713 · MAINTENANCE-PUMPING SYSTEM</i>						
02/10/2023	Southern Sales Company, Inc	\$ 10,514	\$ 9,839	7	\$ 1,406	Lift Station, Pumps, Etc.
02/10/2023	Southern Sales Company, Inc	16,916	16,916	7	2,417	Lift Station, Pumps, Etc.
02/24/2023	Southern Sales Company, Inc	11,120	11,120	7	1,589	Lift Station, Pumps, Etc.
04/27/2023	Quality Electric Motor Repair Inc.	13,628	13,628	7	1,947	Lift Station, Pumps, Etc.
04/27/2023	Southern Sales Company, Inc	19,228	12,642	7	1,806	Lift Station, Pumps, Etc.
04/27/2023	Southern Sales Company, Inc	8,239	8,239	7	1,177	Lift Station, Pumps, Etc.
05/26/2023	Southern Sales Company, Inc	10,787	10,787	7	1,541	Lift Station, Pumps, Etc.
07/14/2023	Southern Sales Company, Inc	5,713	5,713	7	816	Lift Station, Pumps, Etc.
09/15/2023	Southern Sales Company, Inc	10,737	10,737	7	1,534	Lift Station, Pumps, Etc.
10/19/2023	Quality Electric Motor Repair Inc.	13,000	13,000	7	1,857	Lift Station, Pumps, Etc.
11/22/2023	Southern Sales Company, Inc	10,708	10,708	7	1,530	Lift Station, Pumps, Etc.
Total Maintenance - Pumping System		<u>\$ (130,590)</u>	<u>\$ (123,329)</u>		<u>\$ 17,618</u>	
<i>715 · MAINTENANCE OF GENERAL PLANT</i>						
05/26/2023	Charter Machine Company	21,654	21,654	25	866	Lift Station, Pumps, Etc.
Grand Total		<u>\$ (152,244)</u>	<u>\$ (144,983)</u>		<u>\$ 18,484</u>	

Staff recommends that the Commission accept Staff's adjustment to decrease Materials and Supplies by \$144,984, as well as an increase to Depreciation Expense of \$18,485, as the expenditures included were used to extend the life of an existing asset and should be capitalized according to the USoA instructions for utility plant accounting.

(G) Amortization – Rate Case Expense. In its application, McCreary District proposed an adjustment to increase Amortization Expense by \$602⁷² to reflect the amortization of current rate case expense over three years allocated to the sewer division.⁷³

⁷² Application, Application_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment E.

⁷³ Application, Application_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment E.

McCreary District contracted with Kentucky Rural Water Association (KRWA) to assist with the application.⁷⁴ KRWA provided a quote for \$10,500 for consulting services to prepare the rate case.⁷⁵ McCreary District then amortized the proposed amount by three years for an annual amount of \$3,500. Finally, McCreary District allocated the annual rate case expense between the Water and sewer divisions based upon the number of customers percentage.⁷⁶ However, McCreary District filed an updated rate case expense.⁷⁷ Staff determined the \$10,500 quote was only to complete the Cost of Service Study (COSS).⁷⁸ Staff agrees the COSS should be allocated between the water and sewer divisions based on the number of customers. The \$345 Publication Expense was allocated equally between the water and sewer division of \$173 each.⁷⁹ Staff agrees with the allocation methodology for the publication expense.

In addition, McCreary District submitted the invoices for the legal expenses incurred,⁸⁰ and the new total for the rate case expense for the sewer division is \$17,702.⁸¹

⁷⁴ Application, 002_RateStudy.xlsx, Adj Tab, Contractual Services Adjustments.

⁷⁵ Case 2025-00136, McCreary District's Response to Staff's Third Request, Item 1b, Attachment 3-1a, page 2 of 26.

⁷⁶ Application, 002_RateStudy.xlsx, Adj Tab, Contractual Services Adjustments.

⁷⁷ McCreary District's Supplemental Response to Staff's First Request, Response_to_PSC_Staff_First_Request_for_Information.pdf, Item 11a.

⁷⁸ Case 2025-00136, McCreary District's Response to Staff's Third Request, Item 1b, Attachment 3-1a, Page 2 of 26.

⁷⁹ McCreary District's Supplemental Response to Staff's First Request, Response_to_PSC_Staff_First_Request_for_Information.pdf, Item 11a, page 1 of 26, Note 2.

⁸⁰ McCreary District's Supplemental Response to Staff's First Request, Response_to_PSC_Staff_First_Request_for_Information.pdf, Item 1a, page 2 thru 26.

⁸¹ McCreary District's Supplemental Response to Staff's First Request, Response_to_PSC_Staff_First_Request_for_Information.pdf, Item 11a.

Staff agrees with the recovery of the costs over three years. Additionally, Staff reviewed the rate study proposal and additional invoices, and calculated a different amount, Staff determined an annual cost of \$5,901 is required to recover the full cost of the expense over a three-year period, which is \$5,299 more than McCreary District's proposed \$602, as shown below.

Descirption	Amount
Legal	\$ 15,723
Consultants	1,806
Other Expenses - Publication	173
Total	17,702
Amortization Years	3
Annual Rate Case Expense	5,901
McCreary District's Proposed Adjustment ()	(602)
Difference	<u>\$ 5,299</u>

Staff recommends the Commission accept Staff's adjustment of \$5,901 increase to Amortization Expense to reflect the recovery of the current Rate Case Expense over a three-year period.

(H) Depreciation Expense. In its application, McCreary District proposed an adjustment to reduce Depreciation Expense by \$6,297⁸² to reflect the average useful lives of assets based on the National Association of Regulatory Utility Commissioners (NARUC) Study.⁸³ As discussed in the Materials and Supplies Adjustment, the Commission has historically relied upon *Operation and Maintenance (O&M) Guide for the support of Rural Water - Waste Water Systems and Rural Development (RD)*. When no

⁸² Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment F.

⁸³ Application, Application_Sewer.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment F.

evidence exists to support a specific life that is outside the O&M ranges, the Commission has historically used the midpoint of the O&M ranges to depreciate the utility plant.⁸⁴ McCreary District stated that the use of the O&M methodology was preferred to the NARUC study for sewer utilities instead of the NARUC Study which is focused on water utilities.⁸⁵ Upon examination, Staff agrees with McCreary District's methodology to adjust depreciation expense; however, Staff disagreed with several of the proposed service lives.

Staff's calculation differed from McCreary District in four areas. First, McCreary District proposed to reclassify Collecting Reservoirs from the water division and depreciate it over 62.5 years.⁸⁶ While Staff agrees with McCreary District's reclassification, McCreary District did not provide any evidence to support the proposed 62.5-year service life. The O&M Guide recommends a range of 30–75 years for Gravity Sewers Collection Systems for a midpoint of 52.5, which without evidence to the contrary, represents Staff's recommendation.⁸⁷ Second, Staff agreed with the proposed service life for Buildings; however, Staff calculated a full year's worth of depreciation for buildings instead of the half-year convention. Third, Staff disagreed with McCreary District

⁸⁴ See Case No. 2021-00316, *Electronic Application of Adair County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 9, 2022); Case 2021-00300, *Electronic Application of McCreary County Water District for an Alternative Rate Adjustment* (Ky. PSC, Sep. 30, 2022); and Case No. 2024-00201, *Electronic Application of Warren County Water District for an Adjustment of Rates for Sewer Service* (Ky. PSC May 20, 2025).

⁸⁵ McCreary District's Response to Staff's Third Request, Item 1d.

⁸⁶ Application, 001_Exhibit_F_DepreciationSchedule.xlsx, Cells AU119 & AU120.

⁸⁷ O&M Guide for the Support of Rural Water-Wastewater Systems, Collections System, Gravity Sewers, cast iron.

depreciating Transportation Equipment over a 7-year service life.⁸⁸ The O&M Guide recommends a range of 3 to 5 years for a midpoint of 4 years for Service Vehicles,⁸⁹ since McCreary District provided no evidence to support their proposed service life. Finally, Staff disagreed with McCreary District depreciating Other Tangible Property over a ten-year service life.⁹⁰ Staff reviewed the assets, and the O&M Guide recommends a range of 5 to 10 years for a midpoint of 7.5-years.⁹¹ McCreary District did not provide any justification for the proposed 10-year service lives, therefore Staff depreciated Other Tangible Property over the 7.5-year midpoint.

Staff calculated a Depreciation Expense of \$626,993, as shown in the following table, which is \$7,255 more than the recorded test year amount of \$619,738 and \$13,552 more than McCreary District's proposed \$7,255 decrease to Depreciation Expense.

⁸⁸ Application, 002_RateStudy.xlsx, Depr Tab, Asset Category 392 Transportation Equipment, Row 62.

⁸⁹ O&M Guide for the Support of Rural Water-Wastewater Systems, Service Vehicle.

⁹⁰ Application, 002_RateStudy.xlsx, Depr Tab, Asset Category 393.6 Other Tangible Property, Row 63.

⁹¹ O&M Guide for the Support of Rural Water-Wastewater Systems, Pumper/Tank trucks.

Asset Class	O&M Recommended Service Lives	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Collecting Reservoir	30 - 75	\$ -	\$ 738	\$ 738
Manholes, Structures	20 - 50	289,078	257	289,335
Collection Sewers-Force	35	253,651	-	253,651
Gravity Sewers Collection Systems	35 - 45	20,179	(192)	19,987
Lift Stations, Pumps, Etc.	7	29,434	-	29,434
Treatment & Disposal	7	1,526	-	1,526
Service Vehicles	3 - 5	22,711	5,678	28,389
Other Tangible Property	5 - 10	3,159	774	3,933
Total		<u>\$ 619,738</u>	<u>7,255</u>	<u>\$ 626,993</u>
McCreary District's Negative Adjustment ()			6,297	
Difference			<u>\$ 13,552</u>	

Staff recommends the Commission accept Staff's \$7,255 increase to Depreciation expense to reflect the annualization of Depreciation expense at the recommended O&M midpoint service lives for capital assets with a remaining book value.

(I) Taxes Other Than Income – Federal Insurance Contribution Act (FICA). In its application, McCreary District proposed an adjustment to decrease Taxes Other Than Income by \$13,820,⁹² to reflect changes in wage rates and allocation of salaries to the sewer division.⁹³ As explained above, Staff calculated McCreary District's total Salaries and Wages – Employees of \$350,543 and Salaries and Wages – Officers of \$5,160. Staff calculated a decrease of \$10,739 to Taxes Other Than Income, which is \$3,081 less than the \$13,820 proposed decrease by McCreary District, as shown in the following table.

⁹² Application, Application_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment G.

⁹³ Application, Application_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment G.

Description	Amount
Total Salaries and Wages - Employees	\$ 350,543
Salaries and Wages - Officers	5,160
Total Salaries and Wages	355,703
Times: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	27,211
Test Year Payroll Taxes ()	(37,950)
Commission Staff's Taxes Other Than Income Adjustment	(10,739)
McCreary District's Proposed Adjustment ()	13,820
Difference	<u>\$ 3,081</u>

Staff recommends the Commission approve Staff's adjustment to decrease Taxes Other Than Income by \$10,739, 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.

OVERALL REVENUE REQUIREMENT

In its application McCreary District proposed to use the Debt Service Coverage (DSC) methodology to calculate the Revenue Requirement.⁹⁴ The Commission has historically applied the method to calculate the Overall Revenue Requirement of water districts and water associations.⁹⁵ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a noncash item, to

⁹⁴ Application, Exhibit C, Revenue Requirements Sewer Division – Debt Service Coverage Table.

⁹⁵ Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022); and Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

provide working capital;⁹⁶ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

Description	McCreary District - Sewer	Commission Staff	
Pro Forma Operating Expenses	\$ 2,156,186	\$ 2,140,460	
Average Annual Principal and Interest Payments	223,148	196,277	(1)
Additional Working Capital at 20%	44,630	39,255	(1)
Total Revenue Requirement	2,423,964	2,375,992	
Other Revenue ()	(40,072)	(69,829)	
Interest Income ()	(3,218)	(3,218)	
Miscellaneous Nonoperating Income ()	(68,014)	(68,014)	
Revenue Required From Sewer Sales	2,312,660	2,234,931	
Revenue from Sales at Present Rates ()	(2,242,594)	(2,242,595)	
Required Revenue Increase / (Decrease)	\$ 70,066	\$ (7,664)	
Percentage Increase / (Decrease)	3.12%	-0.34%	

1. Average Annual Principal and Interest Payments and Additional Working Capital. At the time of Staff's review, McCreary District – sewer division had one Loan with the Kentucky Infrastructure Authority (KIA),⁹⁷ and two bonds with the Kentucky Rural

⁹⁶ 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, 728 (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).

⁹⁷ Case No. 2022-00247, *Electronic Application of McCreary County Water District for Authorization to Execute a Supplemental Assistance Agreement with the Kentucky Infrastructure Authority to Increase the Amount Borrowed Under an Existing Assistance Agreement and for Approval of Changes to a Plan of Construction* (Ky. PSC Sept. 8, 2022).

Water Finance Corporation (KRWFC),⁹⁸ which are allocated between the water and sewer divisions as shown in the following table.

In its application, McCreary District requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the five years following the test year, which is 2025 through 2029.⁹⁹ However, because the statutory date for a final Order to be issued in this proceeding is March 16, 2026, the 2025 debt service payments will be recovered through McCreary District's existing rates. Thus, only the debt service payments that will be made after the new rates are placed into effect should be considered in determining McCreary District's Annual Principal and Interest Expense. Staff calculated the average annual principal and interest on a five-year average for the years 2026 through 2030. As shown in the following table, Staff calculated an Average Principal and Interest Expense of \$196,277.

The DSC method, as historically applied by the Commission, also includes an allowance for 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 application, McCreary District requested recovery of an allowance for working capital that

⁹⁸ Case No. 2012-00172, *Application of McCreary County Water District to Issue Securities in the Approximate Principal Amount of \$4,790,000 for the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC May 25, 2012). Case No. 2020-00151, *Electronic Application of The McCreary County Water District to issue Securities in the Approximate Principal Amount of \$1,702,000 for the Purpose of Refunding Certain Outstanding Obligations of the District and Refinancing of a Short-Term Obligation Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Jun. 2020).

⁹⁹ Application, Exhibit C, Table B, Debt Service Schedule.

is equal to 120 percent of its average annual principal and debt payments at the time of its application for a total of \$44,630.¹⁰⁰

The DSC methodology allows for the recovery of average principal and interest payments. Staff agrees with McCreary District's methodology. When the average Annual Principal and Interest Payments of \$196,277 is included, \$39,255 is included in the revenue requirement as shown in the following table.

Loan	2026		2027		2028		2029		2030		Total
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	
KIA Loan A20-047	\$ 88,089	\$ 17,273	\$ 88,530	\$ 16,656	\$ 88,973	\$ 16,036	\$ 89,418	\$ 15,412	\$ 89,866	\$ 14,785	\$ 525,039
KRWFC 2012 D	6,000	37,824	60,000	35,634	65,000	33,321	65,000	30,916	7,000	28,375	369,070
KRWFC 2020 E	1,719	2,256	2,579	2,165	2,579	2,055	2,579	1,946	2,579	1,836	22,291
KRWFC 2020 E	7,520	5,756	7,520	5,437	7,520	5,117	8,460	4,778	8,460	4,418	64,986
Totals	\$ 103,328	\$ 63,110	\$ 158,628	\$ 59,891	\$ 164,072	\$ 56,529	\$ 165,457	\$ 53,051	\$ 107,905	\$ 49,414	981,386
Divided by 5 years											5
Average Annual Principal and Interest Payments											196,277
Additional Working Capital at 20%											\$ 39,255

Staff recommends the Commission approve McCreary District's proposal to recover 120 percent of its average annual principal and debt payments, once recalculated for the years 2026 through 2030 results in average payments of \$196,277, equating to \$39,255 in additional Revenue Requirement. The additional Revenue Requirement will account for the average annual principal and interest payments, and the additional working capital, because DSC methodology allows for the recovery of Principal and Interest payments and the Additional Working Capital is a direct result of the calculated Annual Debt Principal and Interest payments.

¹⁰⁰ Application, Exhibit C, Revenue Requirements Water Division – Debt Service Coverage Table.

Signatures

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