

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 WATER RATES PURSUANT	)	2025-00136
TO 807 KAR 5:076	)	

ORDER

On May 16, 2025,<sup>1</sup> McCreary County Water District (McCreary District) concurrently filed two applications with the Commission requesting an adjustment to its water service rates and its water rates<sup>2</sup> pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Order in Case No. 2022-00009, which required McCreary District to file an application for an adjustment of its base rates for its water and sewer divisions by July 27, 2025,<sup>3</sup> which would have been within three years from the issuance of the final Order in Case No. 2021-00301.<sup>4</sup> McCreary District's last base rate

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<sup>1</sup> McCreary District filed a redacted application on June 17, 2025, to remove employee names from its wages spreadsheet it had inadvertently included in the original application. There were no other changes to the application, so the Commission did not amend the procedural schedule or the suspension and statutory dates.

<sup>2</sup> Case No. 2025-00135, *Electronic Application of McCreary County Water District for an Adjustment of Sewer Rates Pursuant to 807 KAR 5:076*.

<sup>3</sup> 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) at 8, ordering paragraph 6.

<sup>4</sup> Case No. 2021-00301, *Electronic Application of McCreary County Water District for an Alternative Rate Adjustment* (Ky. PSC July 27, 2022).

increase, filed pursuant to the alternative rate filing procedure, was in Case No. 2021-00301.<sup>5</sup> 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 Commission Staff (Staff),<sup>6</sup> and filed three supplemental responses.<sup>7</sup> On October 2, 2025, the Commission issued an Order with an amended procedural schedule to allow Staff additional time to file its report.<sup>8</sup>

In its application, McCreary District requested a total Revenue Requirement of \$5,577,522 to increase its annual water sales revenue by \$749,573, or 16.40 percent.<sup>9</sup>

On October 15, 2025, Staff issued its report (Staff Report) summarizing its recommendations regarding McCreary District's requested rate adjustment. In Staff Report, Staff calculated that McCreary District's adjusted test-year operations support a total Revenue Requirement of \$5,166,389, an increase of \$585,504 or 12.78 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.<sup>10</sup>

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<sup>5</sup> Case No. 2021-00301, *Electronic Application of McCreary County Water District for an Alternative Rate Adjustment* (Ky. PSC July 27, 2022).

<sup>6</sup> McCreary District's Response to Staff's First Request for Information (Staff's First Request), (filed on Jul. 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).

<sup>7</sup> McCreary District's First Supplemental Response to PSC First Request for Information (filed Sept. 1, 2025). McCreary District's Supplemental Response to PSC Staff First Request for Information Item 1-9 (filed Sep. 17, 2025). McCreary District's Second Supplemental Response to Staff's First Request for Information (filed Oct. 2, 2025).

<sup>8</sup> Order (Ky. PSC Oct. 2, 2025) at 2.

<sup>9</sup> Application, Application\_Water.pdf, Exhibit C, at 1 of 4.

<sup>10</sup> Staff Report at 5.

McCreary District commissioned a cost of service study (COSS) as part of its application. After reviewing the study's findings, McCreary District's board of commissioners determined that the existing rate design, an across-the-board increase implemented in two phases, was more equitable and reasonable for McCreary District's customers than the rate design recommended by the COSS.<sup>11</sup> Phase One would be effective upon approval by the Commission and Phase Two would take effect one year after Phase One becomes effective.<sup>12</sup> Staff's Report applied the required revenue increase in accordance with the COSS.<sup>13</sup>

On October 29, 2025, McCreary District filed its response to Staff Report and a modified COSS with a lower fixed charge than the original COSS.<sup>14</sup> In its written comments, McCreary District stated that it did not agree with the calculation of Other Revenue, McCreary District stated the \$376,942 reported in Staff Report should have been \$188,471<sup>15</sup> resulting in a revised Revenue Required from Water Sales of \$5,354,860 and a required revenue increase of \$773,975.<sup>16</sup> McCreary District objected to the Staff Report's proposed rate design and stated that strictly adhering to the results of the COSS would adversely impact a large portion of the McCreary District's customers.<sup>17</sup> Additionally, McCreary District concurred with the remainder of the findings

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<sup>11</sup> McCreary District's Response to Staff's First Request, Item 16a.

<sup>12</sup> Application, Exhibit B (filed June 17, 2025).

<sup>13</sup> Staff Report at 7–8.

<sup>14</sup> McCreary District's Response to the Staff Report (filed Oct. 29, 2025).

<sup>15</sup> McCreary District's Response to the Staff Report at 1–2.

<sup>16</sup> McCreary District's Response to the Staff Report at 2.

<sup>17</sup> McCreary District's Response to the Staff Report at 3.

in the Staff Report and did not request a hearing on those findings or a conference with Staff.<sup>18</sup>

The case now stands submitted for a decision.

### LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."<sup>19</sup> Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

### BACKGROUND

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 authority customers that reside in McCreary County, Kentucky.<sup>20</sup> McCreary District's sewer division owns and operates sewage facilities in McCreary County, Kentucky, that serve approximately 1,019

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<sup>18</sup> McCreary District's Response to the Staff Report at 1.

<sup>19</sup> *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

<sup>20</sup> *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.

residential customers, 181 commercial customers, 5 industrial customers, and 100 public authorities.<sup>21</sup>

### UNACCOUNTED-FOR WATER LOSS

The Commission notes that, in its 2023 Annual Report, McCreary District recorded water loss of 13.3736 percent.<sup>22</sup> McCreary District produces 100 percent of its water.<sup>23</sup> 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 2023 total annual cost of water loss to McCreary District is \$76,130.

Total Water Loss	Purchased		
	Power	Chemicals	Total
Pro Forma Purchases	\$ 388,926	\$ 180,331	\$ 569,257
Water Loss Percent	13.3736%	13.3736%	13.3736%
Total Water Loss	<u>\$ 52,013</u>	<u>\$ 24,117</u>	<u>\$ 76,130</u>

### TEST PERIOD

On March 13, 2025, McCreary District submitted a request for an extension of time to submit its annual reports for the year ending December 31, 2024.<sup>24</sup> On March 18, 2025, Commission granted this request and authorized McCreary District to submit its

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<sup>21</sup> *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.

<sup>22</sup> 2023 Water Division Annual Report at 57.

<sup>23</sup> 2023 Water Division Annual Report at 57.

<sup>24</sup> Case No. 2025-00135, Application, Application\_Sewer.pdf, at 5, Addendum to Application, Exhibit 1 to addendum to application.

annual reports no later than May 30, 2025.<sup>25</sup> As a result of the request and granting of the extension, to comply with the requirements of Section 9 of 807 KAR 5:076<sup>26</sup> McCreary District used the calendar year ended December 31, 2023, as the basis for its water service rate application.

### SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarized McCreary District pro forma income statement as follows:

Description	2023 Test Year	Total Adjustments	Staff's Pro Forma
Total Operating Revenues	\$ 4,662,302	\$ 107,054	\$ 4,769,356
Total Operating Expenses ( )	(4,607,679)	(243,759)	(4,851,438)
Net Operating Income	54,623	(136,705)	(82,082)
Interest Income	41,486	-	41,486
Income Available to Service Debt	<u>\$ 96,109</u>	<u>\$ (136,705)</u>	<u>\$ (40,596)</u>

### REVIEW AND MODIFICATION OF STAFF'S RECOMMENDATIONS

McCreary District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions, as well as proposed an across-the-board approach in applying the revenue increase. In the Staff Report, Staff recommended additional adjustments. As noted above, McCreary District objected to certain adjustments set forth in the Staff Report but did not wish to contest those adjustments.

As a result of McCreary District's comments, the Commission reviewed the Revenue Requirement Calculation for an error. Staff calculated Other Revenues of

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<sup>25</sup> Application, Application\_Sewer.pdf, at 5, Addendum to Application, Exhibit 2 to addendum to application.

<sup>26</sup> 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.

\$376,942.<sup>27</sup> However, the Commission noted that Staff inadvertently double-counted the Other Revenue amounts, and the correct amount is \$188,471. The correction does not appear in the Commission's pro forma schedule of adjusted operations below, the \$188,471 Staff calculated for Total Other Revenues is correct; the correction to Other Revenues is presented in the Commission's Revenue Requirement calculation table. The following is the Commission's complete pro forma:

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<sup>27</sup> Staff Report at 35.

Description	2023 Test Year	Total Adjustments	Staff's Pro Forma	Commission Approved Pro Forma
<b>Operating Revenues</b>				
Metered Sales to Residential Customers	\$ 2,847,130	\$ 124,160	\$ 2,971,290	\$ 2,971,290
Metered Sales to Commercial Customers	289,375	-	289,375	289,375
Metered Sales to Industrial Customers	67,410	-	67,410	67,410
Metered Sales to Public Authorities Customers	1,252,810	-	1,252,810	1,252,810
<b>Other Revenues</b>				
Miscellaneous Service Revenues	147,599	(17,106)	130,493	130,493
Rents from Water Property	57,978	-	57,978	57,978
<b>Total Other Revenues</b>	<b>205,577</b>	<b>(17,106)</b>	<b>188,471</b>	<b>188,471</b>
<b>Total Operating Revenues</b>	<b>4,662,302</b>	<b>107,054</b>	<b>4,769,356</b>	<b>4,769,356</b>
<b>Operation and Maintenance</b>				
Salaries and Wages - Employees	1,030,049	355,699		
		(14,153)	1,371,595	1,371,595
Salaries and Wages - Officers	153,654	(128,811)	24,843	24,843
Employee Benefits	251,838	101,304	353,142	353,142
Employee Pensions	200,090	80,778		
		(70,757)		
		13,011	223,122	223,122
Purchased Power	388,926	-	388,926	388,926
Chemicals	180,331	-	180,331	180,331
Materials and Supplies	350,321	(33,023)		
		(63,056)	254,242	254,242
Contractual Services-Acct.	39,700	-	39,700	39,700
Contractual Services-Legal	21,144	-	21,144	21,144
Contractual Services-Management Fees	1,608	-	1,608	1,608
Contractual Services-Water Testing	1,472	-	1,472	1,472
Contractual Services-Other	382,889	-	382,889	382,889
Transportation Expenses	131,475	-	131,475	131,475
Insurance - General Liability & Other	25,786	-	25,786	25,786
Insurance - Workers Comp.	24,948	-	24,948	24,948
Insurance - Other	47,598	-	47,598	47,598
Advertising	16,581	-	16,581	16,581
Miscellaneous	142,283	-	142,283	142,283
<b>Total</b>	<b>3,390,693</b>	<b>240,992</b>	<b>3,631,685</b>	<b>3,631,685</b>
Amortization	1,084	8,875	9,959	9,959
Depreciation Expense	1,088,577	7,785		
		2,358		
		3,164	1,101,884	1,101,884
Taxes Other Than Income	95,022	12,888	107,910	107,910
Amortization of Utility Plant Acquisition Adjustment	32,303	(32,303)	-	-
<b>Total Operating Expenses</b>	<b>4,607,679</b>	<b>243,759</b>	<b>4,851,438</b>	<b>4,851,438</b>
<b>Net Operating Income</b>	<b>54,623</b>	<b>(136,705)</b>	<b>(82,082)</b>	<b>(82,082)</b>
Interest Income	41,486	-	41,486	41,486
<b>Income Available to Service Debt</b>	<b>\$ 96,109</b>	<b>\$ (136,705)</b>	<b>\$ (40,596)</b>	<b>\$ (40,596)</b>

Billing Analysis. McCreary District proposed an adjustment of \$124,160 due to a water rate increase effective June 26, 2023.<sup>28</sup> Staff reviewed the submitted billing

<sup>28</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment A.



analysis and had no adjustment.<sup>29</sup> Staff agreed with McCreary District's proposed adjustment and recommended the Commission accept the adjustment as the amount meets the rate making criteria of being known and measurable.<sup>30</sup>

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

Other Water Revenues – Miscellaneous Service Revenues. During the test year, McCreary District recorded \$147,599 for Miscellaneous Service Revenues.<sup>31</sup> Miscellaneous Service Revenues are composed of three subparts; Forfeited Discounts, Nonrecurring Charges, and Other Revenues.

*Forfeited Discounts.* In the application, McCreary District recorded \$26,117 for Forfeited Discounts, as part of Miscellaneous Service Revenue.<sup>32</sup> McCreary District stated that during 2023 it transitioned to a new billing system and experienced billing and recording issues, and the recorded Other Revenues could be inconsistent with actual amounts.<sup>33</sup> McCreary District reported 8,618 late fees occurrences totaling \$60,919 in revenue collected.<sup>34</sup> 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

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<sup>29</sup> Staff Report at 12.

<sup>30</sup> Staff Report at 12–13.

<sup>31</sup> Application, Exhibit C, Schedule of Adjusted Operations.

<sup>32</sup> McCreary District's Response to Staff's First Request, Item 5.

<sup>33</sup> McCreary District's Response to Staff's First Request, Item 18.

<sup>34</sup> McCreary District's Response to Staff's First Request, Item 17.

Discounts by \$34,802,<sup>35</sup> to match the total late fees reported during the test year of \$60,919.

*Nonrecurring Charges.* In the application, McCreary District included \$19,709 Nonrecurring Charges as part of Miscellaneous Service Revenues \$147,599.<sup>36</sup> If a check for payment for water and sewer service is dishonored, 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.<sup>37</sup> The Commission adjusted McCreary District's Nonrecurring Charges in its last rate case to remove normal business hour Field Labor and Office/Clerical labor costs.<sup>38</sup> Staff determined that pro forma Nonrecurring Charges should be \$25,680. To achieve the Staff's pro forma Nonrecurring Charges, Staff increased McCreary District's Nonrecurring Charges by \$5,971.<sup>39</sup>

*Other Revenues.* In the application, McCreary District included \$101,773 of Other Revenues as part of Miscellaneous Service Revenues \$147,599,<sup>40</sup> as shown in the

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<sup>35</sup> The \$60,919 total amount collected less \$26,117 total amount recorded = \$34,802 total adjustment to match the total late fees collected.

<sup>36</sup> McCreary District's Response to Staff's First Request, Item 5.

<sup>37</sup> Case No. 2025-00135, McCreary District's Response to Staff's First Request, Item 18.

<sup>38</sup> Case No. 2021-00301, *Electronic Application of McCreary County Water District for an Alternative Rate Adjustment* (Ky. PSC July 27, 2025), Order at 12.

<sup>39</sup> Staff Report at 13–14. Pro forma Nonrecurring Charges \$25,680 less the revenue collected for Nonrecurring Charges during the test year \$19,709 = \$5,971 Adjustment required to reach the Nonrecurring Charges' pro forma.

<sup>40</sup> McCreary District's Response to Staff's First Request, Item 5.

following table. Staff reviewed the components and made adjustments to decrease the amount by \$57,879 for items that will not recur as shown in the table below.<sup>41</sup>

Description	Test Year	McCreary District - Water Proposed Adjustments	Staff Adjustments	Total Adjustments	Pro Forma
Forfeited Discounts	\$ 26,117	\$ -	\$ 34,802	\$ 34,802	\$ 60,919
Nonrecurring Charges	19,709	-	5,971	5,971	25,680
<i>Other Revenues</i>					
Bad Debt Collection	4,594	-	-	-	4,594
Contract	8,950	-	-	-	8,950
Testing Fees Assessed to Fibrivet	29,984	-	-	-	29,984
Miscellaneous Income	2,273	-	(2,273)	(2,273)	-
Miscellaneous Water Sales	83	-	-	-	83
Capital Credit Refund	5,113	-	(5,113)	(5,113)	-
Scrap Metal Refund	10,602	-	(10,602)	(10,602)	-
KLC Safety Award	1,500	-	(1,500)	(1,500)	-
Fuel Tax Refund	283	-	-	-	283
Insurance Refund	1,179	-	(1,179)	(1,179)	-
Miscellaneous Adjustments Because of Change in Billing Programs	37,212	-	(37,212)	(37,212)	-
Total Miscellaneous Service Revenues	101,773	-	(57,879)	(57,879)	43,894
Total Other Revenues	\$ 147,599	\$ -	\$ (17,106)	\$ (17,106)	\$ 130,493

The net effect of the above adjustments results in a pro forma Miscellaneous Service Revenues of \$130,493, as shown in the previous table, which is a net decrease of \$17,109 to McCreary District's test-year amount of \$147,599.<sup>42</sup>

Staff recommended the Commission accept Staff's increase to Miscellaneous Service Revenues for the adjustments made to Forfeited Discounts because the amount accounts for all late fees recorded during the test year that may have been lost during the transition to the new system.<sup>43</sup> Staff also recommended the Commission accept Staff's

<sup>41</sup> Other Revenues collected during the test year of \$101,773 included within Miscellaneous Service Revenues less \$57,879 for items that will not recur thus are not a good representation of a test year and must be removed = \$43,894 Correct amount of Other Revenues included within Miscellaneous Service Revenues.

<sup>42</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations.

<sup>43</sup> Staff Report at 13 – 15. Total Other Revenues collected during the test year of \$147,599 less the total result of all the adjustments shown in the table above of \$17,106 = \$130,493 pro forma Miscellaneous Service Revenues.

adjustment to Miscellaneous Service Revenues from increasing Nonrecurring Charges as well as decreasing Other Revenues by the amount that will not recur because the amounts meet the ratemaking criteria of being known and measurable.<sup>44</sup>

The Commission finds that Staff's increase to Forfeited Discounts is reasonable and should be accepted in order to include all the late fees paid during the test year that were lost during the transition to the new system. The Commission finds Staff's increase to Nonrecurring Charges is reasonable since it accounts for all Nonrecurring Charges with the most recent cost justification information provided. Finally, the Commission also finds Staff's decrease to Other Revenues is reasonable since nonrecurring transactions do not represent a typical operational year and should not be included in the pro forma calculation.

Salaries and Wages – Employees. McCreary District recorded \$1,030,049 in Salaries and Wages during the test year and proposed one adjustment for wages.<sup>45</sup> McCreary District proposed an increase of \$154,421 to reflect changes in wage rates and the allocation of salaries from the sewer division to the water division.<sup>46</sup> During the test year, McCreary District stated it had 21 full-time and 9 part-time employees in its water division,<sup>47</sup> although Staff determined these amounts included office staff for McCreary District, who are allocated between the water and sewer division. The total employees

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<sup>44</sup> Staff Report at 13–15.

<sup>45</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations.

<sup>46</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment B.

<sup>47</sup> McCreary District's Response to Staff's First Request, Item 6a.

working strictly for the water division should have been 16 full-time and 5 part-time.<sup>48</sup> McCreary District proposed to include a portion of salaries from its office staff in the water division. McCreary District proposed to use the number of customers to allocate these amounts.<sup>49</sup> Staff agreed with the methodology and assigned 82.81 percent of office staff and 100 percent of the water division staff wages to the water division.<sup>50</sup> McCreary District stated full-time employees worked 2,080 regular time hours annually.<sup>51</sup> Staff used the test-year information to determine the average hours worked by part-time employees.<sup>52</sup>

Staff calculated McCreary District's pro forma Salaries and Wages for water as \$1,385,748, which results in an additional increase of \$199,278 as shown in the table below.<sup>53</sup> 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.

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<sup>48</sup> McCreary District's Response to Staff's First Request, 1-6 Employee Information Excel Document, Current Employee Wage Rates Tab.

<sup>49</sup> McCreary District's Response to Staff's First Request, Rate Study Model Excel Document, Wages Tab.

<sup>50</sup> Staff Report at 16–17.

<sup>51</sup> McCreary District's Response to Staff's First Request, Item 6b.

<sup>52</sup> Application, Application\_Water, Rate Study Excel Document, Wages Tab.

<sup>53</sup> Staff Report at 16–17.

A	B	C	D (B + C)	E	F	G (E + F)	H (D + G)
Description	Office Employees			Water Employees			Total Water
	Full Time	Part Time	Sub-Total	Full Time	Part Time	Sub-Total	
Non-Salary Employee Count	6	3	9	16	5	21	30
Normalized Hours	2,080.00	1,359.33		2,080.00	1,484.75		
Total Normalized Hours	12,480	4,078	16,558	33,280	7,424	40,704	57,262
Average Current Wage Rate	\$ 22.43	\$ 16.27		\$ 22.37	\$ 16.61		
Regular Hours Wages	\$ 279,864	\$ 66,349	\$ 346,213	\$ 744,515	\$ 123,294	\$ 867,809	\$ 1,214,022
Overtime Hours	834.00	59.00	893.00	2,543.50	322.00	2,865.50	3,758.50
Current Overtime Wage Rate	\$ 33.64	\$ 24.41		\$ 33.56	\$ 24.91		
Overtime Hours Wages	\$ 28,054	\$ 1,440	\$ 29,494	\$ 85,352	\$ 8,022	\$ 93,374	\$ 122,867
Non-Salary Total Wages	\$ 307,918	\$ 67,789	\$ 375,707	\$ 829,867	\$ 131,315	\$ 961,182	\$ 1,336,889
Salary Wages	136,992	-	136,992	-	-	-	136,992
Total Wages	\$ 444,910	\$ 67,789	\$ 512,699	\$ 829,867	\$ 131,315	\$ 961,182	\$ 1,473,881
Allocation Factor for Water	82.81%	82.81%	82.81%	100%	100%	100%	
Allocated Office Wages	\$ 368,430	\$ 56,136	\$ 424,566	\$ 829,867	\$ 131,315	\$ 961,182	\$ 1,385,748
Test Year ( )							(1,030,049)
Total Adjustment							355,699
McCreary District Adjustment							(156,421)
Commission Staff Adjustment							\$ 199,278

Staff recommended the Commission accept Staff's adjustment to increase Salaries and Wages – Employees by \$355,699, as it is known and measurable change because it reflects the average test year hours at current average wage rates with current employees.<sup>54</sup>

The Commission finds Staff's recommendation reasonable and should be accepted because it is the normalization of the average hours at current rates for employees either working directly for or allocated to the water division; and meets the ratemaking criteria of being known and measurable.

Expenses Related to Meter Installations. In its application, McCreary District proposed an adjustment to decrease Salaries and Wages – Employees by \$13,920,<sup>55</sup>

<sup>54</sup> Staff Report at 16–17.

<sup>55</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment C.

and Materials and Supplies by \$32,480,<sup>56</sup> to account for tap fee expenses that were included as part of these expenses during the test year.<sup>57</sup> The USoA requires that costs, such as tap fee expenses, be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.<sup>58</sup> During the test year, McCreary District installed 57 new water connections,<sup>59</sup> and recorded \$46,465 in Tap Fees.<sup>60</sup> During the test year, the charge for Tap-On Charges was \$800 for 5/8- x 3/4-Inch Meters.<sup>61</sup> Staff recalculated the Normalized Tap Fees collected at the test year rate to \$47,175, as shown in the following table.

Meter	Number of connections	Per Unit Cost	Revenue
5/8 X 3/4"	55	\$ 800	\$ 44,000
All Larger Meters	2	Actual cost	3,175
Total	<u>57</u>		<u>\$ 47,175</u>

Staff calculated a different amount for the adjustment. Staff calculated a decrease for Salaries and Wages – Employees of \$14,153, which is \$233 more than McCreary District’s proposal.<sup>62</sup> Staff also calculated a decrease for Materials and Supplies of

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<sup>56</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment C.

<sup>57</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment C.

<sup>58</sup> USoA, Accounting Instruction 19 and 33.

<sup>59</sup> McCreary District’s Response to Staff’s First Request, Item 14a.

<sup>60</sup> McCreary District’s Response to Staff’s First Request, item 3a, 1-3\_GeneralLedgers-TrialBalances-CrossReference.xlsx, Account 432 Proceeds from Capital Contribut:SYSTEM CHARGE - TAP.

<sup>61</sup> Canceled Tariff P.S.C. Ky. 4, Sheet No. 3 (issued Apr. 3, 2023), effective Mar. 22, 2023.

<sup>62</sup> Staff Report at 17–19.

\$33,023, which is \$543 more than McCreary District's proposed \$32,480; as shown in the following table.<sup>63</sup>

Description	Salaries and Wages	Materials and Supplies
Normalized Tap Fees Collected	\$ 47,175	\$ 47,175
Allocated Percentage	30%	70%
Commission Staff's Adjustment	(14,153)	(33,023)
McCreary District's Proposed Adjustment ( )	13,920	32,480
Difference between Adjustments	<u>\$ (233)</u>	<u>\$ (543)</u>

Staff recommended the Commission accept Staff's adjustments to decrease Salaries and Wages – Employees by \$14,153 and decrease Materials and Supplies by \$33,023 because it reflects the proper accounting for the normalized water connection expenses according to the USoA.<sup>64</sup>

The Commission finds that Staff's adjustment is reasonable and should be accepted. McCreary District's Salaries and Wages – Employees should be reduced by \$233, and Materials and Supplies reduced by \$543, with a corresponding adjustment to test-year depreciation as shown in Capitalization of Water Tap Labor because the USoA requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives.

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<sup>63</sup> Staff Report at 17–19.

<sup>64</sup> Staff Report at 17–19.



Salaries and Wages – Officers. In the application, McCreary District proposed an adjustment to increase Salaries and Wages - Officers by \$47,858,<sup>65</sup> due to an increase in wages and allocation of salaries to the water division.<sup>66</sup>

McCreary District included office Employee's salaries in the Salaries and Wages – Officer's classification, in addition to McCreary District's commissioners' wages.<sup>67</sup> Staff disagreed with the inclusion of office staff wages in Salaries and Wages – Officers and included the office employees' wages in the calculation of Salaries and Wages – Employees, leaving the Commissioners only in the Officers category.<sup>68</sup>

McCreary District provided a list of the current commissioners and wages,<sup>69</sup> records authorizing the compensation,<sup>70</sup> as well as the training records.<sup>71</sup> Each commissioner receives \$6,000 annually.<sup>72</sup> Staff calculated a total Salaries and Wages – Officers' expense of \$30,000, then Staff allocated the commissioners' salaries<sup>73</sup> based upon the customer percentage for the water division for an 82.81 percent allocation to water division. Staff calculated an allocated pro forma Salaries and Wages – Officers of

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<sup>65</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment D.

<sup>66</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment D.

<sup>67</sup> Application, 002\_RateStudy.xlsx, Cell H65.

<sup>68</sup> Staff Report at 19–21.

<sup>69</sup> McCreary District's Response to Staff First Request, Item 10a.

<sup>70</sup> McCreary District's Response to Staff First Request, Item 10b, Attachment 1-10b1, page 1 of 7.

<sup>71</sup> McCreary District's Response to Staff First Request, Item 10c.

<sup>72</sup> McCreary District's Response to Staff First Request, Item 10a.

<sup>73</sup> McCreary District's Response to Staff First Request, Item 10b, Attachment 1-10b1, page 1 of 7.

\$24,843, which is \$128,811 less than the test year amount of \$153,654.<sup>74</sup> The \$128,811 is \$176,669 less than McCreary District's proposed \$47,858 increase, as shown in the following table.

Commissioners	Pro Forma Salaries
Randy Kidd	\$ 6,000
Doug Sexton	6,000
Mark Sumner	6,000
Coy Taylor	6,000
Raymond Taylor	6,000
Total	30,000
Water Allocation Factor	82.81%
Allocated to Water	24,843
Test Year ( )	(153,654)
Adjustment	(128,811)
Proposed Adjustment ( )	(47,858)
Difference	<u>\$ (176,669)</u>

Staff recommended the Commission accept Staff's adjustment of a \$128,811 decrease to Salaries and Wages – Officers for an overall pro forma amount of \$24,843.<sup>75</sup>

The Commission finds that Staff's recommended adjustments should be accepted. McCreary District's Salaries and Wages – Officers should be decreased by \$128,811. The adjustment, a known and measurable change, is a direct result of both the annualization of McCreary District's current officers for an entire year allocated to the water division based on customer count; as well as the reclassification of McCreary District's office employees to Salaries and Wages – Employees.

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<sup>74</sup> Staff Report at 19–21.

<sup>75</sup> Staff Report at 19–21.

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).<sup>76</sup> In its application, McCreary District proposed to increase Employee Benefits by \$34,449<sup>77</sup> due to an increase in monthly premiums and allocation of expenses to the water division.<sup>78</sup> McCreary District proposed to allocate the insurance premiums between the water and sewer based on the total insurance paid during the test year.<sup>79</sup> Staff disagreed with the allocation methodology since McCreary District did not provide any justification for the test year amounts used to determine the proposed allocation percentages;<sup>80</sup> and recommended allocating the insurance premiums based upon the number of customers in each division.<sup>81</sup> Staff made this recommendation since the allocation for all other employee related costs such as Salaries and Wages – Employees and Salaries and Wages – Officers are based upon the number of customers; the insurance allocation should be the same.

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<sup>76</sup> McCreary District's Response to Staff's Second Request, Item 7.

<sup>77</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment F.

<sup>78</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment F.

<sup>79</sup> Application, 002\_RateStudy.xlsx, Medical Tab rows 62–64.

<sup>80</sup> McCreary District's Response to Staff's First Request, Rate Study Model Excel Document, Medical Tab, Cells E52, E53, and J52.

<sup>81</sup> Staff Report at 21–23.

As discussed above, McCreary District currently has 26 total full-time employees<sup>82</sup> that received benefits,<sup>83</sup> the water division has 16 exclusive full-time employees,<sup>84</sup> the Sewer Division has 4 exclusive full-time employees,<sup>85</sup> and 6 full-time employees work for both the water and sewer divisions.<sup>86</sup> Using the most recent copies of its health, vision, dental, life, and disability insurance invoices and number of full-time employees, Staff calculated total current premiums for insurance benefits of \$410,904.<sup>87</sup> Using the number of customers, Staff then allocated the total cost by 82.81 percent for an allocated water division total of \$340,270, which is an increase of \$101,304 from McCreary District's test year amount of \$238,966.<sup>88</sup> The adjustment is \$66,855 more than the proposed \$34,449, as shown in the table below.

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<sup>82</sup> McCreary District's Response to Staff's First Request, item 6, 1-6\_EmployeeInformation.xlsx, Employee Cross-Reference Tab.

<sup>83</sup> McCreary District's Response to Staff's First Request, item 7a.,

<sup>84</sup> McCreary District's Response to Staff's First Request, item 6, 1-6\_EmployeeInformation.xlsx, 1-6e\_CurrentEmployeeWageRates Tab.

<sup>85</sup> Case No. 2025-00135, McCreary District's Response to Staff's First Request, Item 6, 1-6\_EmployeeInformation.xlsx, 1-6e\_CurrentEmployeeWageRates Tab.

<sup>86</sup> Case 2025-00135, McCreary District's Response to Staff's First Request, item 6, 1-6\_EmployeeInformation.xlsx, 1-6e\_CurrentEmployeeWageRates Tab.

<sup>87</sup> McCreary District's Response to Staff's First Request, Item 7c.

<sup>88</sup> Staff Report at 21–23.

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
FEBCO Administrative Fee	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		410,904
Water Allocation Percentage		82.81%
Allocated to Water Division		340,270
Test Year ( )		(238,966)
Staff's Net Adjustment		101,304
Proposed Adjustment ( )		(34,449)
Difference		\$ 66,855

Staff recommended the Commission accept Staff's adjustment to increase Employee Benefits by \$101,304, which is \$66,855 more than McCreary District's proposed adjustment, to reflect the annualization of current insurance premiums allocated to the water division.<sup>89</sup>

The Commission finds Staff's recommended adjustment should be accepted. McCreary District's Employee Benefits are increased by \$101,304, because it is a known and measurable change that reflects the current annualized expenses allocated to the water division based on invoices contained in the record.

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<sup>89</sup> Staff Report at 21–23.

Employee Pensions – CERS. McCreary District participates in the County Employee Retirement System (CERS),<sup>90</sup> which is managed by the Kentucky Public Pension Authority (KPPA). McCreary District proposed an increase to Employee Pensions and Benefits in the amount of \$38,388<sup>91</sup> to reflect an increase in wage rates and the allocation of salaries to the water division, for a total of \$238,478.<sup>92</sup> Staff calculated three adjustments based on the calculation of the pro forma Salaries and Wages – Employees as well as contribution percentage, and Governmental Accounting Standards Board (GASB) 68, Pension, and GASB 75, Other Post Employment Benefits (OPEB) accounting.

While Staff agreed with McCreary District's methodology, it calculated different adjustments. First, Staff calculated an increase of \$80,778 for Pension and OPEB related to GASB 68 and GASB 75, from 2022 to 2023,<sup>93</sup> from McCreary District's test year amount, as shown in the following table.

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<sup>90</sup> McCreary District's Response to Staff's First Request, Item 7.

<sup>91</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment E.

<sup>92</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment E.

<sup>93</sup> McCreary District's 2023 Audited Financial Statements at 9.

Description	Water	
	2022	2023
Deferred Outflow - Pension	\$ 695,752	\$ 853,552
Deferred Outflow - OPEB	425,026	410,688
Liability - Pension ( )	(2,704,775)	(2,682,792)
Liability - OPEB ( )	(737,845)	5,315
Deferred Inflow - Pension ( )	(424,471)	(1,017,851)
Deferred Inflow - OPEB ( )	(352,197)	(586,644)
Net Liability	<u>\$ (3,098,510)</u>	<u>(3,017,732)</u>
Decrease / (Increase)		<u>\$ 80,778</u>

In Case No. 2016-00163,<sup>94</sup> 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.<sup>95</sup> Consistent with Commission precedent,<sup>96</sup> Staff added \$80,778 as an adjustment related to GASB 68 as well as GASB 75, which did not become effective until after GASB 68.

Staff calculated a decrease of \$109,145 instead of McCreary District's proposed increase of \$38,388 to account for the reduction in the CERS contribution rate from the test year.<sup>97</sup> Then, Staff accounted for the increase in contributable wages resulted in an increase of \$13,011 for McCreary District's CERS expense. Staff's total adjustments

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<sup>94</sup> Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11–15.

<sup>95</sup> Case No. 2016-00163, Nov. 10, 2016 Order at 11–15.

<sup>96</sup> 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.

<sup>97</sup> CERS Board of Trustees December 4, 2023, Meeting, Minutes, at 2. CERS Contribution Rate in the test year was 26.79 percent and 19.71 percent in current year.

resulted in a net increase of \$23,032, which is \$15,356 less than McCreary District's proposed \$38,388 increase, as shown in the table below.

Description	Test Year	Water Pro Forma
CERS Water Wages (full-time)	\$ 1,097,837	\$ 1,198,297
Contribution Rate	25.07%	18.62%
Contributions	275,173	223,122
GASB 68 & 75 Adjustment	(80,778)	-
Immaterial Differences	5,695	-
Total	<u>\$ 200,090</u>	223,122
Test Year Employee Retirement ( )		(200,090)
Total Increase		23,032
McCreary District Adjustment ( )		(38,388)
Difference		<u>\$ (15,356)</u>

<i>Reconciliation</i>	McCreary District	Staff's Adjustments
GASB 68 & 75	-	\$ 80,778
Change in Contribution Rate	\$ 38,388	(109,145)
Change in Wages	-	13,011
Total	<u>\$ 38,388</u>	<u>\$ (15,356)</u>

Staff recommended the Commission accept Staff's adjustments as the amounts are known and measurable based on current Salaries and Wages at current contribution levels.<sup>98</sup>

The Commission finds Staff's adjustments are reasonable and should be accepted. McCreary District's Employee Pensions should be decreased by a net of \$15,356 because the modified contribution expense accounts for the normalization of Salaries and Wages, the corresponding update to the required contribution percent by CERS, and the adjustments conform with general accounting principles.

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<sup>98</sup> Staff Report at 23–26.



Materials and Supplies. McCreary District recorded test-year Materials and Supplies of \$350,321.<sup>99</sup> During Staff's review of McCreary District's general ledger accounts for Materials and Supplies, it also identified several expenditures that should have been capitalized. McCreary District agreed some of the items purchased should have been capitalized.<sup>100</sup> 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.<sup>101</sup> 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.<sup>102</sup> Staff made an adjustment to decrease Materials and Supplies by \$63,056, as shown in the following table.

Further, Staff made an adjustment to depreciate the cost of each asset over its estimated useful life as part of Depreciation Expense calculation. Staff aligned the asset's useful lives with the Depreciation Practices for Small Utilities (NARUC Study), which is included as an adjustment in the chart below. This resulted in an increase of \$3,164 to Depreciation Expense.

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<sup>99</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations.

<sup>100</sup> McCreary District's Response to Staff's Second Request, Item 1, Attachment 2-1b.

<sup>101</sup> McCreary District's Response to Staff's Second Request, item 1, Attachment 2-1b.

<sup>102</sup> USoA, Accounting Instruction 27 B(1) at 33.

Date	Name	Transaction Amount	Capitalized Amount	Service Life	Annual Depreciation Expense	Asset Category
5/25/2023	TV Lift Cabin	\$ 4,198	\$ 4,198	37.50	\$ 112	Structure and Improvements
06/09/2023	Volt Unlimited, LLC	10,950	10,950	12.50	876	Power Operated Equipment
07/14/2023	USA Bluebook	6,725	6,725	17.50	384	Laboratory Equipment
07/28/2023	Core & Main	2,408	2,408	20.00	120	Meters
10/18/2023	Ferguson Waterworks #1491	3,920	3,920	62.50	63	T & D mains
10/27/2023	FloSource, Inc.	8,880	8,880	62.50	142	T & D mains
11/14/2023	Ferguson Waterworks #1491	4,891	4,891	62.50	78	T & D mains
11/22/2023	Somerset-Burnside Garage Door & Glass Co.	8,130	8,130	37.50	217	Structures & Improvements
11/22/2023	Southern Sales Company, Inc	6,800	6,800	10.00	680	Communication Equipment
12/01/2023	B L Anderson	6,154	6,154	12.50	492	Power Operated Equipment
Total		<u>\$ (63,056)</u>	<u>\$ (63,056)</u>		<u>\$ 3,164</u>	

Staff recommended that the Commission accept Staff's adjustment to decrease Materials and Supplies by \$63,056 for capitalization of assets purchased during the test year, as well as an increase to Depreciation Expense of \$3,164, 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.<sup>103</sup>

The Commission finds Staff's adjustments are reasonable and should be accepted to properly capitalize known and measurable expenses. McCreary District's Materials and Supplies should be decreased by a net of \$63,056 with a corresponding adjustment to increase test-year depreciation of \$3,164, because the USoA instructions requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives.

Amortization – Rate Case Expense. In its application, McCreary District proposed an adjustment to increase Amortization Expense by \$2,898<sup>104</sup> to reflect the amortization of current rate case expense over three years allocated to the water division.<sup>105</sup>

<sup>103</sup> Staff Report at 26–28.

<sup>104</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment G.

<sup>105</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment G.

McCreary District contracted with Kentucky Rural Water Association (KRWA) to assist with the application.<sup>106</sup> KRWA provided a quote for \$10,500 for consulting services to prepare the rate case.<sup>107</sup> McCreary District then amortized the proposed amount over 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.<sup>108</sup> However, McCreary District filed an updated rate case expense.<sup>109</sup> Staff determined the \$10,500 quote was only to complete the COSS.<sup>110</sup> Staff agreed the COSS should be allocated between the water and sewer divisions based on the number of customers.<sup>111</sup> The \$345 Publication Expense for the newspaper notice of the applications for rate adjustments for the water and sewer operations was allocated equally between the water and sewer division of \$173 each<sup>112</sup> Staff agreed with the allocation methodology for the publication expense.<sup>113</sup>

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<sup>106</sup> Application, 002\_RateStudy.xlsx, Adj Tab, Contractual Services Adjustments.

<sup>107</sup> McCreary District's Supplemental Response to Staff's First Request, Response\_to\_PSC\_Staff\_First\_Request\_for\_Information.pdf, Item 1a, page 2 of 26.

<sup>108</sup> Application, 002\_RateStudy.xlsx, Adj Tab, Contractual Services Adjustments.

<sup>109</sup> McCreary District's Supplemental Response to Staff's First Request, Response\_to\_PSC\_Staff\_First\_Request\_for\_Information.pdf, Item 1a, page 2 of 26.

<sup>110</sup> McCreary District's Supplemental Response to Staff's First Request, Response\_to\_PSC\_Staff\_First\_Request\_for\_Information.pdf, Item 1a, page 2 of 26.

<sup>111</sup> Staff Report at 28–29.

<sup>112</sup> 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.

<sup>113</sup> Staff Report at 28–29.

In addition, McCreary District submitted the invoices for the legal expenses incurred,<sup>114</sup> and the new total for the rate case expense for the water division is \$26,626.<sup>115</sup> Staff agreed with the recovery of the costs over three years.<sup>116</sup> Additionally, Staff reviewed the rate study proposal and additional invoices, and calculated a different amount, Staff determined an annual cost of \$8,875 is required to recover the full cost of the expense over a three-year period, which is \$5,977 more than McCreary District's proposed \$2,898, as shown below.<sup>117</sup>

Descirption	Amount
Legal	\$ 17,759
Consultant	8,694
Publication of Notice	173
Total	26,626
Amortization Years	3
Total Annual Adjustment	8,875
McCreary District's Adjustment ( )	(2,898)
Difference	\$ 5,977

Staff recommended the Commission accept Staff's \$8,875 adjustment of an increase to Amortization Expense to reflect the recovery of the current Rate Case Expense over a three-year period.<sup>118</sup>

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<sup>114</sup> McCreary District's Supplemental Response to Staff's First Request, Response\_to\_PSC\_Staff\_First\_Request\_for\_Information.pdf, Item 1a, page 3 thru 26.

<sup>115</sup> McCreary District's Supplemental Response to Staff's First Request, Response\_to\_PSC\_Staff\_First\_Request\_for\_Information.pdf, Item 11a.

<sup>116</sup> Staff Report at 28–29.

<sup>117</sup> Staff Report at 28–29.

<sup>118</sup> Staff Report at 28–29.

The Commission finds Staff's recommended adjustment is reasonable and should be accepted because the amounts are known and measurable based upon the invoices in the case record. Additionally, the Commission finds that a three-year amortization of McCreary District's rate case expense is reasonable and should be accepted, as this is the amount of time barring unusual circumstances, when McCreary District should, or is expected to file a new rate case.<sup>119</sup>

Depreciation Expense. In its application, McCreary District proposed an adjustment to reduce Depreciation Expense by \$21,559<sup>120</sup> to reflect the useful lives set forth in the National Association of Regulatory Utility Commissioners (NARUC) Study.<sup>121</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.<sup>122</sup> Upon examination, Staff agreed with McCreary District's methodology to adjust depreciation expense.<sup>123</sup> Staff's calculation differed from McCreary District in two areas. McCreary

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<sup>119</sup> Case No. 2023-00191, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates, a Certificate of Public Convenience and Necessity for Installation of Advanced Metering Infrastructure, Approval of Regulatory and Accounting Treatments, and Tariff Revisions* (Ky. PSC May 3, 2024), Order at 23 (Note that a Rehearing Order was entered in this case on Nov. 6, 2024, but was unrelated to amortization of rate case expense).

<sup>120</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment H.

<sup>121</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment H.

<sup>122</sup> 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.

<sup>123</sup> Staff Report at 30–32.

District proposed to depreciate Lake, Rivers, and Other Intakes over a 37.5-year service life;<sup>124</sup> however, the NARUC Study recommends depreciating Lake, Rivers, and Other Intakes over a range of 35 to 45 years,<sup>125</sup> for a 40-year midpoint. Second, Staff disagreed with McCreary District depreciating Water Treatment Plant over a 62.5-year service life;<sup>126</sup> the NARUC Study recommends a range of 35 to 40 years for a midpoint of 37.5 years.<sup>127</sup>

Staff calculated a Depreciation Expense of \$1,096,361, as shown in the following table, which is \$7,785 more than the recorded test-year amount of \$1,088,576 and \$29,344 more than McCreary District's proposed \$21,559 decrease to Depreciation Expense.<sup>128</sup>

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<sup>124</sup> Application, Exhibit F, 001\_ExhibitF\_DepreciationSchedule.xlsx, Adjusted Tab, Asset Category 313 Lake, River and Other Intake, Row 93–94.

<sup>125</sup> National Association of Regulatory Commissioners Depreciation Practices for Small Water Utilities, NARUC Account Number 332 Water Treatment Equipment.

<sup>126</sup> Application, Exhibit F, 001\_ExhibitF\_DepreciationSchedule.xlsx, Adjusted Tab, Asset Category 320 Water Treatment, rows 98–105.

<sup>127</sup> National Association of Regulatory Commissioners Depreciation Practices for Small Water Utilities, NARUC Account Number 394 Tools, Shop & Garage Equipment.

<sup>128</sup> Staff Report at 30–32.

Asset Class	NARUC		Depreciation Adjustment	Pro Forma Depreciation
	Recommended Service Lives	Test Year Depreciation		
Structures and Improvements	35 - 40	\$ 317,404	\$ -	\$ 317,404
Reservoirs and Tanks	30 - 60	384	(384)	-
Power Operated Equipment	10 - 15	18,000	-	18,000
Pumping Equipment	20	37,048	-	37,048
Structures and Improvements	35 - 40	22,829	-	22,829
Lake, River and Other Intake	35 - 45	81,879	(5,117)	76,762
Water Treatment Plant	35 - 40	80,765	5,385	86,150
Water Treatment Equipment	20 - 35	582	-	582
Reservoirs and Tanks	30 - 60	74,307	-	74,307
Structures and Improvements	35 - 40	129	-	129
Transmission & Distribution Mains	50 - 75	298,174	-	298,174
Services	30 - 50	16,723	-	16,723
Radio Read Meters	20	49,353	-	49,353
Hydrants	40 - 60	3,966	-	3,966
Communication and Computer Equipment	10	43,022	-	43,022
Communication and Computer Equipment	10	286	358	644
Office Furniture and Equipment	20 - 25	1,275	2,795	4,070
Communication and Computer Equipment	10	414	-	414
Transportation Equipment	7	28,264	-	28,264
Power Operated Equipment	10 - 15	7,441	-	7,441
Communication and Computer Equipment	10	6,331	4,748	11,079
Total		<u>\$ 1,088,576</u>	7,785	<u>\$ 1,096,361</u>
McCreary District's Proposed Adjustment ( )			21,559	
Difference			<u>\$ 29,344</u>	

Staff recommended the Commission accept Staff's \$7,785 increase to Depreciation expense to reflect the annualization of Depreciation expense at the recommended NARUC midpoint service lives for capital assets with a remaining book value.<sup>129</sup>

The Commission finds that Staff's recommended adjustments are reasonable and should be accepted. McCreary District's Depreciation Expense should be increased by \$7,785 because the known and measurable change is a direct result of aligning McCreary

<sup>129</sup> Staff Report at 30–32.

District's capital asset's useful lives with the NARUC Study's recommended useful lives midpoints.

Capitalization of Water Tap Labor. As discussed in the Expenses Related to Meter Installations adjustment above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.<sup>130</sup> McCreary District stated that it had already capitalized some of the labor<sup>131</sup> and materials<sup>132</sup> costs and included them in the test-year Depreciation Expense. Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$2,358 to account for uncapitalized portion of the Tap Fee labor and materials as shown below:<sup>133</sup>

Description	Salaries and Wages	Materials and Supplies
Test Year Water Connections Expense	\$ 14,153	\$ 33,023
Amount already Capitalized ( )	(21,372)	(21,660)
Remaining Amount to be Capitalized	(7,219)	11,363
Divided by: Recommended Useful Life	20	20
Capitalized Expenses	<u>\$ 707</u>	<u>1,651</u>
Total Depreciation Adjustment		<u><u>\$ 2,358</u></u>

Staff recommended the Commission accept Staff's \$2,358 adjustment of an increase to Depreciation Expense, because the USoA requires the assets to be depreciated over their estimated useful lives.<sup>134</sup>

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<sup>130</sup> USoA, Accounting Instruction 19 and 33.

<sup>131</sup> McCreary District's Response to Staff's First Request, Item 14b.

<sup>132</sup> McCreary District's Response to Staff's First Request, Item 14c.

<sup>133</sup> Staff Report at 32.

<sup>134</sup> Staff Report at 32.



The Commission finds that Staff's adjustment is reasonable and should be accepted. McCreary District's Depreciation Expense should be increased by \$2,358 because the known and measurable amount reflects USoA requirement for assets to be depreciated over their estimated useful lives.

Taxes Other Than Income – Federal Insurance Contribution Act (FICA). In its application, McCreary District proposed an adjustment to increase Taxes Other Than Income by \$11,159,<sup>135</sup> to reflect an increase in wage rates and allocation of salaries to the water division.<sup>136</sup> As explained in the Salaries and Wages – Employee adjustment above, Staff calculated McCreary District's total Salaries and Wages – Employees of \$1,385,748 and Salaries and Wages – Officers of \$24,843.<sup>137</sup> Staff calculated an increase of \$12,888 to Taxes Other Than Income, which is \$1,729 more than the \$11,159 proposed increase by McCreary District, as shown in the following table.

Description	Amount
Salaries and Wages - Employees	\$ 1,385,748
Salaries and Wages - Officers	24,843
Total Salaries and Wages	1,410,591
Times: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	107,910
Test Year Payroll Taxes ( )	(95,022)
Commission Staff's Adjustment	12,888
McCreary District's Proposed Adjustment ( )	(11,159)
Difference	<u>\$ 1,729</u>

<sup>135</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment I.

<sup>136</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment I.

<sup>137</sup> Staff Report at 33.

Staff recommended the Commission approve Staff's adjustment to increase Taxes Other Than Income by \$12,888 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.<sup>138</sup>

The Commission finds that Staff's adjustment is reasonable and should be accepted. McCreary District's Taxes Other Than Income should be increased by \$12,888 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees and Salaries and Wages – Officers.

Amortization of Utility Plant Acquisition Adjustment. In its application, McCreary District proposed an adjustment to decrease Amortization of Utility Plant Acquisition Adjustment by \$32,203,<sup>139</sup> to reflect the removal of the amortized expense in December 2023.<sup>140</sup> Staff reviewed the test-year Trial Balance and determined the Acquisition Adjustment was for the amortization of meters.<sup>141</sup> Staff also reviewed the test year General Ledger and determined the meters were completely amortized in October

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<sup>138</sup> Staff Report at 33.

<sup>139</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, Adjustment J.

<sup>140</sup> Application, Application\_Water.pdf, Exhibit C, Schedule of Adjusted Operations, References, Adjustment J.

<sup>141</sup> McCreary District's Response to Staff's First Request, Item 3a, 1-3\_GeneralLedgers-TrialBalances-CrossReferences.xlsx, 2023 WaterTrialBalances (1-3b) Tab, Account 407 Amortization Meters.

2023.<sup>142</sup> Additionally, Staff reviewed the 2024 General Ledger and determined the amortization did not continue in 2024.<sup>143</sup>

Staff recommended the Commission accept McCreary District's adjustment to decrease Amortization of Utility Plant Acquisition Adjustment by \$32,203, since the transaction did not continue subsequent to the test year.<sup>144</sup>

The Commission finds that McCreary District's recommended adjustment is reasonable and should be accepted. McCreary District's Amortization of Utility Plant Acquisition Adjustment should be decreased by \$32,203 because transactions not expected to continue subsequent to the test year are not indicative of standard utility operations, and therefore, not included in the Total Operating Expenses amount.

#### SUMMARY OF ADJUSTMENTS

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

Description	Staff's Pro Forma	Commission Adjustment	Commission Approved Pro Forma
Total Operating Revenues	\$ 4,769,356	\$ -	\$ 4,769,356
Total Operating Expenses ( )	(4,851,438)	-	(4,851,438)
Net Operating Income	(82,082)	-	(82,082)
Interest Income	41,486	-	41,486
Income Available to Service Debt	\$ (40,596)	\$ -	\$ (40,596)

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<sup>142</sup> McCreary District's Response to Staff's First Request, Item 3a, 1-3\_GeneralLedgers-TrialBalances-CrossReferences.xlsx, 2023 WaterGeneralLedger (1-3a) Tab, Account 407 Amortization Meters.

<sup>143</sup> McCreary District's Response to Staff's First Request, Item 3a, 1-3\_GeneralLedgers-TrialBalances-CrossReferences.xlsx, 2024 WaterGeneralLedger (1-3b) Tab, Account 407 Amortization Meters.

<sup>144</sup> Staff Report at 33–34.

## REVENUE REQUIREMENT

In its application, McCreary District proposed to use the Debt Service Coverage (DSC) methodology to calculate the Revenue Requirement.<sup>145</sup> The Commission has historically applied the method to calculate the Overall Revenue Requirement of water districts and water associations.<sup>146</sup> This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a noncash item, to provide working capital;<sup>147</sup> (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

After reviewing the evidence provided, the Commission finds that the application of the DSC Method is appropriate, but an adjustment to Staff's proposal is necessary. Upon review of the Staff Report, the Commission made a correction to the Other Revenue. Staff mistakenly double counted the Other Revenues and used the \$376,942 for Other Revenues.<sup>148</sup> Correcting the double count results in an increase to the Revenue Requirement of \$188,471, as shown in the table below.

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<sup>145</sup> Application, Exhibit C, Revenue Requirements Water Division – Debt Service Coverage Table.

<sup>146</sup> 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); 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).

<sup>147</sup> 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).

<sup>148</sup> Staff Report at 35.

Description	Staff Original Recommend	Commission Correction	Commission Approved
Pro Forma Operating Expenses	\$4,851,438	\$ -	\$ 4,851,438
Average Annual Principal and Interest Payments	611,149	-	611,149
Additional Working Capital at 20%	122,230	-	122,230
Total Revenue Requirement	5,584,817	-	5,584,817
Other Revenue ( )	(376,942)	188,471	(188,471)
Interest Income ( )	(41,486)	-	(41,486)
Revenue Required From Water Sales	5,166,389	188,471	5,354,860
Revenue from Sales at Present Rates ( )	(4,580,885)	-	(4,580,885)
Required Revenue Increase / (Decrease)	\$ 585,504	\$ 188,471	\$ 773,975
Percentage Increase / (Decrease)	12.80%	4.10%	16.90%

Average Annual Principal and Interest Payments and Additional Working Capital.

At the time of Staff's review, McCreary District had two loans with the Kentucky Infrastructure Authority (KIA),<sup>149</sup> six outstanding United States Department of Agriculture (USDA) Rural Development (RD) bonds,<sup>150</sup> one Government Capital Corporation (GCC)

<sup>149</sup> Case No. 2003-00007, *Application of The McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct an Improvements Project and to Issue Securities in the Approximate Amount of \$1,510,000 to Finance a Portion of Said Project Pursuant to KRS 278.020, 278.300 and 807 KAR 5:001* (Ky. PSC Feb. 18, 2003). Case No. 2021-00452, *Electronic Application of McCreary County Water District for Authorization to Enter an Assistance Agreement with The Kentucky Infrastructure Authority to Borrow \$270,000 to Finance the Construction of the Catron/Needle Road Water Line Project and a Declaration that Project Does Not Require a Certificate of Public Convenience and Necessity* (Ky. PSC Feb. 1, 2022).

<sup>150</sup> Case No. 2012-00053, *Application of McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Mar. 15, 2012). Case No. 2015-00053, *Application of The McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023*, (Ky. PSC Mar. 6, 2015). Case No. 2019-00246, *Application of The McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Aug. 2, 2019). Case No. 2021-00021, *Electronic Application of McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Feb. 22, 2021). Case No. 2022-00204, *Electronic Application of McCreary County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Aug. 5, 2022).

Municipal Lease,<sup>151</sup> and three bonds with the Kentucky Rural Water Finance Corporation (KRWFC), which are allocated between the water and sewer divisions.<sup>152</sup> 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.<sup>153</sup> 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. Staff calculated an Average Principal and Interest Expense of \$611,149 as shown in the table below.<sup>154</sup>

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

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<sup>151</sup> Case No. 2018-00038, *Electronic Application of McCreary County Water District for Authorization to Execute Lease-Purchase Agreement and Related Relief* (Ky. PSC Jun. 28, 2018).

<sup>152</sup> 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 s Short Term Obligation Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC June 2020). Case No. 2013-00042, *Kentucky Rural Water Finance Corporation Joint Application on Behalf of Certain Water Districts for Authority to Borrow Funds to Refinance Certain Outstanding Indebtedness to the Kentucky Rural Water Finance Corporation* (Ky. PSC Mar. 27, 2013).

<sup>153</sup> Application, Exhibit C, Table B, Debt Service Schedule.

<sup>154</sup> Staff Report at 35–38.

application, McCreary District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual principal and debt payments at the time of its application for a total of \$129,822.<sup>155</sup>

The DSC methodology allows for the recovery of average annual principal and interest payments. Staff agreed with McCreary District's methodology but calculated a different amount.<sup>156</sup> When the average Annual Principal and Interest Payments of \$611,149 is included, \$122,230 is included in the Revenue Requirement as shown in the following table.

Debt	2025		2026		2027		2028		2029		2030		Total
	Principal	Interest	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	
Series 2013 91-35	\$ 13,500	\$ 9,539	\$ 13,500	\$ 9,286	\$ 14,000	\$ 9,028	\$ 14,500	\$ 8,761	\$ 14,500	\$ 8,489	\$ 15,000	\$ 8,213	\$ 115,277
Seires 2013 91-33	27,000	19,734	27,500	19,223	28,000	18,703	29,000	18,169	29,500	17,620	30,500	17,058	235,273
Series 2016 93-37	20,000	25,638	20,500	25,131	21,000	24,613	22,000	24,075	22,500	23,519	23,500	22,944	229,781
Series 2020 93-38	22,000	16,913	22,500	16,607	23,000	16,294	24,000	15,971	24,500	15,637	25,000	15,297	198,805
Series 2022 93-40	10,500	11,236	11,000	11,034	11,000	10,828	11,500	10,617	11,500	10,402	11,500	10,186	109,567
Series 2021 94-42	9,500	8,912	10,000	8,741	10,000	8,566	10,500	8,387	10,500	8,203	10,500	8,019	93,417
KRWFC 2012 D	120,000	79,024	120,000	74,704	125,000	70,231	130,000	65,514	135,000	60,611	140,000	55,436	976,496
KRWFC 2020 E	8,281	11,221	8,281	10,869	12,422	10,429	12,422	9,901	12,422	9,373	12,422	8,845	107,384
KRWFC 2020 E	35,000	32,213	40,000	30,619	40,000	28,919	40,000	27,219	45,000	25,413	45,000	23,500	345,669
KIA F04-03	79,474	1,246	40,035	250	-	-	-	-	-	-	-	-	40,285
KRWFC 2013 B	100,000	10,635	100,000	7,585	45,000	5,318	40,000	3,915	40,000	2,595	45,000	1,193	290,605
GCC 8306	83,662	14,005	86,963	10,704	90,394	7,273	93,960	3,707	-	-	-	-	293,000
KIA F21-025	3,553	510	3,562	492	3,571	475	3,580	457	3,589	439	3,598	421	20,183
Totals	\$532,470	\$240,824	\$503,841	\$225,246	\$423,386	\$210,676	\$431,461	\$196,692	\$349,010	\$182,301	\$362,019	\$171,111	3,055,743
Divided by 5 years													5
Average Annual Principal and Interest Payments													611,149
Additional Working Capital at 20%													\$ 122,230

Staff recommended the Commission approve McCreary District's proposed inclusion of \$611,149 and \$122,230 to the Revenue Requirement to 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

<sup>155</sup> Application, Exhibit C, Revenue Requirements Water Division – Debt Service Coverage Table.

<sup>156</sup> Staff Report at 35–38.

and the Additional Working Capital is a direct result of the calculated Annual Debt Principal and Interest payments.<sup>157</sup>

The Commission finds Staff's calculated Average Principal and Interest payments of \$611,149 and Additional Working Capital of \$122,230 should be included in McCreary District's Revenue Requirement.

### RATE DESIGN

In its application, McCreary District proposed to increase its monthly water service rates by 16.36 percent to all its water customers across the board and requested that the rates be implemented in two phases. Phase One would be effective upon approval by the Commission and Phase Two would take effect one year after Phase One becomes effective.<sup>158</sup> McCreary District commissioned a COSS as part of its application. After reviewing the study's findings, McCreary District's board of commissioners determined that the existing rate design (across-the-board increase) was more equitable and reasonable for McCreary District's customers than the design that was recommended by the COSS.<sup>159</sup> McCreary District provided a copy of the most recent COSS performed for its system.<sup>160</sup> When a utility performs a COSS, and the study does not vary significantly from an across the board increase, Staff recommended using the COSS as it reflects the actual allocation of costs toward customer classes.<sup>161</sup>

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<sup>157</sup> Staff Report at 35–38.

<sup>158</sup> Application, Exhibit B (filed June 17, 2025).

<sup>159</sup> McCreary District's Response to Staff's First Request, Item 16a.

<sup>160</sup> McCreary District's Response to Staff's First Request, Item 16d.

<sup>161</sup> Staff Report at 6.



McCreary District stated that the COSS would disproportionately affect lower income, retail customers who use less than 3,000 gallons per month.<sup>162</sup>

The development of a COSS to establish utility rates is the most fair, just and reasonable method to ensure each customer category is charged for services based on the cost to serve that particular cost of service. While some deviation may be appropriate if the cost to serve has changed across the customer classes, or for other specific community or customer needs, McCreary District has the burden of proof to demonstrate that a rate design significantly different than the COSS is appropriate.

In its response to the Staff Report, McCreary District insisted that complete adherence to the COSS's rate design will adversely affect a large portion of McCreary District's customers, many of whom have limited financial resources and will be very challenged to absorb a large increase in water rates and argued that close to 40 percent of bills for retail customers are for 2000 gallons or less.<sup>163</sup> As an alternative, McCreary District proposed a rate design generally consistent with the COSS results but modified to lessen the adverse impact on its lower income customers.<sup>164</sup> McCreary District's proposed rate design will lessen the increase to the fixed charge, so lower income customers can have more control over their final bill. The Commission recognizes the impact a full, cost of service based, fixed cost increase would have on low income and low usage customers using less than 2,000 gallons per month. While the rate design proposed by the Staff Report are fair, and just, the Commission finds that a more gradual

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<sup>162</sup> McCreary District's Response to Staff's Third Request, Item A-3-2.

<sup>163</sup> McCreary District's Response to the Staff Report at 4.

<sup>164</sup> McCreary District's Response to the Staff Report at 5.

increase than Staff's original proposed rate design is reasonable to lessen any rate shock that may impact lower use customers.

The Commission accepts McCreary District's recommendation that the COSS be adjusted for the first 2,000 gallons Residential rate class and the over 2,000 gallons rate class. For the first 2,000 gallons, the rate should be adjusted to \$28.85 per gallon instead of the \$33.25 calculated by the COSS. For usage over 2,000 gallons, the Commission finds that the rate should be adjusted to \$0.01078 per gallon instead of the \$0.086 per gallon calculated by the COSS. This results in the minimum bill increasing by 18.1 percent, or \$4.43; significantly less than the increase of 36.2 percent, or \$8.83, with strict adherence to the COSS. Refer to the table below for customer usage averages.

**COMPARISON OF EXISTING AND PROPOSED WATER BILLS**

Gallons per Month*	Existing Bill	COSS with no Adjustments	Change	Percentage Change	COSS with Adjustments	Change	Percentage Change
-	24.42	33.25	\$ 8.83	36.2%	28.85	\$ 4.43	18.1%
2,000	24.42	33.25	\$ 8.83	36.2%	28.85	\$ 4.43	18.1%
4,000	44.50	50.45	\$ 5.95	13.4%	50.41	\$ 5.91	13.3%
6,000	64.58	67.65	\$ 3.07	4.8%	71.97	\$ 7.39	11.4%
8,000	84.66	84.85	\$ 0.19	0.2%	93.53	\$ 8.87	10.5%
10,000	104.74	102.05	\$ (2.69)	-2.6%	115.09	\$ 10.35	9.9%
15,000	154.94	145.05	\$ (9.89)	-6.4%	168.99	\$ 14.05	9.1%
20,000	205.14	188.05	\$ (17.09)	-8.3%	222.89	\$ 17.75	8.7%
50,000	506.34	446.05	\$ (60.29)	-11.9%	546.29	\$ 39.95	7.9%
<b>Cumberland Falls State Park</b>							
700,000	5,537.98	7,034.19	\$ 1,496.21	27.0%	7,034.19	\$ 1,496.21	27.0%
<b>Federal Correctional Facility</b>							
9,500,000	75,075.93	95,298.19	\$ 20,222.26	26.9%	95,298.19	\$ 20,222.26	26.9%
<b>Wholesale Customers</b>							
350,000	2,765.00	3,510.50	\$ 745.50	27.0%	3,510.50	\$ 745.50	27.0%

The rates provided in Appendix B to this report will produce sufficient revenues from water sales to recover the \$5,354,860 revenue required from rates, which results in an approximately 16.9 percent increase. The monthly water bill for a typical

Residential/Nonresidential customer using approximately 3,753 gallons per month<sup>165</sup> will increase by \$5.73 from \$42.02 to \$47.75 or approximately 13.63 percent, which is \$0.79 higher than the approximate 11.76 percent original increase recommended by strictly adhering to the COSS.

Additionally, McCreary District proposed a phase-in of the proposed rate increase. The Commission has authorized phased-in rates in some instances when a rate increase is significant, and rate shock is likely to be widespread. However, while a 16.9 percent increase may be significant for some customers, there is also potential for McCreary District to not have resources for working capital without a full rate increase. This is further exacerbated by the test year being over two years past by the time the rates are implemented and the inflationary pressures of the last two years. The Commission must consider the utility's financial stability along with customer impact to determine if a phase-in approach is appropriate. In this instance, the Commission does not believe a phased-in implementation is in the overall best interest in McCreary District's continued ability to provide safe and adequate service to its customers.

The Commission finds the revised rate design to be more adequate in establishing fair, just and reasonable rates for low usage customers than Staff's original rate design and further denies McCreary District's request for a phase in. The Commission will continue to address gradualism in increasing the fixed charge to adhere to cost based rates in the next rate case.

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<sup>165</sup> Application, Exhibit K, Customer Notice (the average Residential/Nonresidential customer uses 3,753 gallons per month).

Nonrecurring Charges. Following the Commission's recent decisions, Staff reviewed McCreary District's Nonrecurring Charges. The Commission has found that because McCreary District personnel are currently paid during normal business hours, estimated normal business hour labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges as those expenses are already recovered in base rates.<sup>166</sup> Adjustments to Nonrecurring Charges related to utility staff activities during regular business hours were performed during McCreary District's most recent tariff case in 2022.<sup>167</sup> In that matter, Staff reviewed and adjusted McCreary District's Nonrecurring Charges by removing the Field Labor Costs and the Office/Clerical Labor Costs from those charges that occurred during normal business hours, as well as removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal business hours. In its response to the Staff report, McCreary District stated that it does not agree that labor costs related to services provided during regular business hours should be excluded from the determination of the charges of such non-recurring services.<sup>168</sup> Upon consideration of adjustments made in Case No. 2022-00336,<sup>169</sup> the Commission does not

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<sup>166</sup> 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).

<sup>167</sup> Case No. 2022-00336, *Electronic Tariff Filing of McCreary County Water District* (Ky. PSC Mar. 22, 2023), final Order at 3.

<sup>168</sup> McCreary District's Response to the Staff Report at 9.

<sup>169</sup> Case No. 2022-00336, *Electronic Tariff Filing of McCreary County Water District*.

find that the evidence of record in this case compels a different result as regular business hour wages are already recovered in base rates.

The cost justification information, shown in Appendix A, was provided by McCreary District and supports Staff's adjustments to the Nonrecurring Charges. The adjustments to the Nonrecurring Charges result in an increase in Miscellaneous Services Revenues of \$5,971 as shown below.

Charge	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Connection / Turn-on Charge	674	\$12.50	\$19.00	\$ 2,506	\$ 12,806
Connection / Turn-on Charge After Hrs.	0	\$50.00	\$62.00	-	-
Termination Charge	235	\$12.50	\$19.00	3,402	4,465
Reconnection Fee	0	\$12.50	\$19.00	-	-
Reconnection Fee After Hrs.	0	\$50.00	\$62.00	-	-
Meter Reread	0	\$12.50	\$19.00	-	-
Meter Relocate		Actual Cost	Actual Cost	-	7,371
Service Call / Investigation	0	\$12.50	\$19.00	-	-
Service Call / Investigation After Hrs.	0	\$50.00	\$62.00	-	-
Meter Test Request	0	\$12.50	\$19.00	-	-
Returned Check Charge	14	\$8.50	\$9.00	63	63
Service Line Cost Estimate Charge	39	Actual Cost	Actual Cost	-	975
Pro Forma Test Year NRC Revenue				<u>\$ 5,971</u>	25,680
Less: Test Year NRC Revenue ( )					(19,709)
Adjustment					<u>\$ 5,971</u>

The Commission finds that Commission Staff's adjustments to Nonrecurring Charges, are reasonable because the evidence filed into the case record supports the incremental cost of each Nonrecurring Charge.

### SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Staff Report, are supported by the evidence of record and are reasonable. Application of the DSC method to McCreary District's pro forma operations results in an Overall Revenue Requirement of \$5,584,817 and a \$773,975 revenue increase, or 16.90 percent, to pro

forma present rate revenues is necessary to generate the Overall Revenue Requirement. The rates contained in Appendix B to this order are fair, just and reasonable based on the evidence in the record.


IT IS THEREFORE ORDERED that:

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

PUBLIC SERVICE COMMISSION

  
Chairman

  
Commissioner

  
Commissioner

ATTEST:

  
Executive Director



## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00136 DATED JAN 12 2026

\* Denotes Rounding

#### Nonrecurring Charges Adjustments

Connection / Turn-on Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials		\$	-
Field Labor		\$	-
Office Supplies	\$ 5.00	\$	5.00
Office Labor		\$	-
Transportation	\$ 14.00	\$	14.00
Misc.		\$	-
Total Revised Charge*	<u>\$ 19.00</u>	<u>\$</u>	<u>19.00</u>
Current Rate	\$12.50		

Connection / Turn-on Charge After Hrs.			
	Utility Revised Charge	Staff Revised Charge	
Field Materials		\$	-
Field Labor (1hr \$42.77/hr)	\$ 42.77	\$	42.77
Office Supplies	\$ 5.00	\$	5.00
Office Labor		\$	-
Transportation	\$ 14.00	\$	14.00
Misc.		\$	-
Total Revised Charge*	<u>\$ 61.77</u>	<u>\$</u>	<u>62.00</u>
Current Rate	\$50.00		

Termination Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials		\$	-
Field Labor		\$	-
Office Supplies	\$ 5.00	\$	5.00
Office Labor		\$	-
Transportation	\$ 14.00	\$	14.00
Misc.		\$	-
Total Revised Charge*	<u>\$ 19.00</u>	<u>\$</u>	<u>19.00</u>
Current Rate	\$12.50		



	Reconnection Fee	
	Utility Revised Charge	Staff Revised Charge
Field Materials		\$ -
Field Labor		\$ -
Office Supplies	\$ 5.00	\$ 5.00
Office Labor		\$ -
Transportation		\$ -
Misc.	\$ 14.00	\$ 14.00
Total Revised Charge*	<u>\$ 19.00</u>	<u>\$ 19.00</u>
Current Rate	\$12.50	

	Reconnection Fee After Hrs.	
	Utility Revised Charge	Staff Revised Charge
Field Materials		\$ -
Field Labor (1hr \$42.77/hr)	\$ 42.77	\$ 42.77
Office Supplies	\$ 5.00	\$ 5.00
Office Labor		\$ -
Transportation	\$ 14.00	\$ 14.00
Misc.		\$ -
Total Revised Charge*	<u>\$ 61.77</u>	<u>\$ 62.00</u>
Current Rate	\$50.00	

	Meter Reread	
	Utility Revised Charge	Staff Revised Charge
Field Materials		\$ -
Field Labor		\$ -
Office Supplies	\$ 5.00	\$ 5.00
Office Labor		\$ -
Transportation		\$ -
Misc.	\$ 14.00	\$ 14.00
Total Revised Charge*	<u>\$ 19.00</u>	<u>\$ 19.00</u>
Current Rate	\$12.50	

	Service Call / Investigation	
	Utility Revised Charge	Staff Revised Charge
Field Materials		\$ -
Field Labor		\$ -
Office Supplies	\$ 5.00	\$ 5.00
Office Labor		\$ -
Transportation	\$ 14.00	\$ 14.00
Misc.		\$ -
Total Revised Charge*	<u>\$ 19.00</u>	<u>\$ 19.00</u>
Current Rate	\$12.50	

Service Call / Investigation After Hrs.			
	Utility Revised Charge	Staff Revised Charge	
Field Materials		\$	-
Field Labor (1hr \$42.77/hr)	\$ 42.77	\$	42.77
Office Supplies	\$ 5.00	\$	5.00
Office Labor		\$	-
Transportation	\$ 14.00	\$	14.00
Misc.		\$	-
Total Revised Charge*	<u>\$ 61.77</u>	<u>\$</u>	<u>62.00</u>
Current Rate	\$50.00		
Meter Test Request			
	Utility Revised Charge	Staff Revised Charge	
Field Materials		\$	-
Field Labor	\$ -	\$	-
Office Supplies	\$ 5.00	\$	5.00
Office Labor	\$ -	\$	-
Transportation	\$ 14.00	\$	14.00
Misc.		\$	-
Total Revised Charge*	<u>\$ 19.00</u>	<u>\$</u>	<u>19.00</u>
Current Rate	\$12.50		
Returned Check Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials		\$	-
Field Labor		\$	-
Office Supplies	\$ 8.50	\$	8.50
Office Labor		\$	-
Transportation		\$	-
Misc. (Bank Charge)		\$	-
Total Revised Charge*	<u>\$ 8.50</u>	<u>\$</u>	<u>9.00</u>
Current Rate	\$8.50		

## APPENDIX B

### APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00136 DATED JAN 12 2026

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

#### Monthly Water Rates

##### Residential & Non-Residential Meter

First	2,000	Gallons	\$	28.85	Minimum Bill
Over	2,000	Gallons		0.01078	Per Gallon

##### Federal Correctional Facility

First	1,950,000	Gallons	\$	19,571.69	Minimum Bill
Over	1,950,000	Gallons		0.01003	Per Gallon

##### Cumberland Falls State Park

First	600,000	Gallons	\$	6,031.19	Minimum Bill
Over	600,000	Gallons		0.01003	Per Gallon

##### Wholesale Customers

Whitley County Water District	\$	0.01003	Per Gallon
Oneida, Tennessee		0.01003	Per Gallon
Fibrotex, USA		0.01003	Per Gallon
Pine Knot Job Center		0.01003	Per Gallon
McCreary County Housing Auth.		0.01003	Per Gallon

Charge	Revised Charge
Connection / Turn-on Charge	\$19.00
Connection / Turn-on Charge After Hrs.	\$62.00
Termination Charge	\$19.00
Reconnection Fee	\$19.00
Reconnection Fee After Hrs.	\$62.00
Meter Reread	\$19.00
Service Call / Investigation	\$19.00
Service Call / Investigation After Hrs.	\$62.00
Meter Test Request	\$19.00
Returned Check Charge	\$9.00

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