

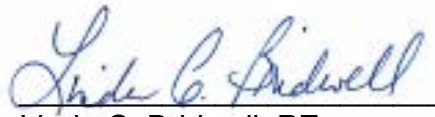
COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LAUREL	)	
COUNTY WATER DISTRICT NO. 2 FOR AN	)	CASE NO.
ALTERNATIVE RATE FILING ADJUSTMENT	)	2025-00353
PURSUANT TO 807 KAR 5:076	)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of March 27, 2026, 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 March 27, 2026 Order, Laurel County Water District No. 2 (Laurel District No. 2) 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 Laurel District No. 2 to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED APR 28 2026

cc: Parties of Record

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<sup>1</sup> 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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PURSUANT TO 807 KAR 5:076	)	

COMMISSION STAFF'S REPORT  
ON LAUREL COUNTY WATER DISTRICT NO. 2

Laurel County Water District No. 2 (Laurel District No. 2) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 5,927 residential customers, 439 commercial customers, and 8 industrial customers that reside in Knox and Laurel counties, Kentucky.<sup>1</sup>

On November 19, 2025,<sup>2</sup> Laurel District No. 2 filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,<sup>3</sup> Laurel District No. 2 used the calendar year ended December 31, 2024, as the basis for its application. Laurel District No. 2's last base rate increase pursuant to the alternative rate filing

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<sup>1</sup> *Annual Report of Laurel District No. 2 to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report), at 49 and 12.

<sup>2</sup> Laurel District No. 2 tendered its application on November 5, 2025. By letter dated November 17, 2025, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on November 19, 2025.

<sup>3</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.

procedure was in Case No. 2021-00385.<sup>4</sup> Since that matter, Laurel District No. 2 has not adjusted its rates. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 27, 2026.<sup>5</sup> Laurel District No. 2 responded to four requests for information.<sup>6</sup> The third request for information was due on March 11, 2026, but was filed on March 12, 2026,<sup>7</sup> along with a request for leave for the late filing.<sup>8</sup> Staff recommends the Commission approve the request.

### UNACCOUNTED FOR WATER LOSS

Laurel District No. 2 produces 100 percent<sup>9</sup> of its water.<sup>10</sup> The Commission notes that in its 2024 Annual Report, Laurel District No. 2 reported a water loss of 8.8866 percent;<sup>11</sup> in its 2023 Annual Report, Laurel District No. 2 reported a water loss of 11.4280 percent;<sup>12</sup> and in its 2022 Annual Report, Laurel District No. 2 reported a water loss of

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<sup>4</sup> See Case No. 2021-00385, *Electronic Application of Laurel County Water District No. 2 for an Alternative Rate Filing Adjustment Pursuant to KAR 5:076* (Ky. PSC Nov. 1, 2022).

<sup>5</sup> Order (Ky. PSC Mar. 27, 2026).

<sup>6</sup> Laurel District No. 2's Response to Staff First Request for Information (Staff's First Request) (filed Jan. 13, 2026); Laurel District No. 2's Response to Staff's Second Request for Information (Staff's Second Request) (filed Feb. 17, 2026); Laurel District No. 2's Response to Staff's Third Request for Information (Staff's Third Request) (filed Mar. 12, 2026); Laurel District No. 2's Response to Staff Fourth Request for Information (Staff's Fourth Request) (filed Apr. 7, 2026).

<sup>7</sup> Laurel District No. 2's Response to Staff's Third Request.

<sup>8</sup> Request to Late-File Responses (filed Mar. 12, 2026) Letter\_requesting\_to\_Late-File\_responses.pdf.

<sup>9</sup> Staff noted in the 2024 Annual Report on page 50, Laurel District reported a purchased water expense of \$46 while also on page 57 producing 100% of its water needs.

<sup>10</sup> 2024 Annual Report at 54 and 57.

<sup>11</sup> 2024 Annual Report at 57.

<sup>12</sup> *Annual Report of Laurel District No. 2 to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 57.

17.0286 percent.<sup>13</sup> Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's unaccounted for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2024 total annual cost of unaccounted for water loss to Laurel District No. 2 is \$27,294.

Total Water Loss	Purchased Water	Purchased Power	Purchased Chemicals	Total
Pro Forma Purchases	\$ 46	\$ 206,981	\$ 100,110	\$ 307,137
Water Loss Percent	8.8866%	8.8866%	8.8866%	8.8866%
Total Water Loss	\$ 4	\$ 18,394	\$ 8,896	\$ 27,294

### DISCUSSION

Using its pro forma test-year operations, Laurel District No. 2 determined that a base rate revenue increase of \$486,926, or 15.75 percent,<sup>14</sup> was necessary to achieve the revenue requirement as shown in the table below.<sup>15</sup>

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<sup>13</sup> *Annual Report of Laurel District No. 2 to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 57.

<sup>14</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Revenue Requirements Table.

<sup>15</sup> Staff noticed in its review of the application; Laurel District No. 2 did not round its amounts to the whole dollar while Staff did. This results in a \$1 discrepancy in the Pro Forma Operating Expenses. The rounded proposed adjustments total \$116,440; however, the application presents the unrounded amount of \$116,439.

Description	Laurel County WD #2
Pro Forma Operating Expenses	\$ 3,246,709
Average Annual Principal and Interest Payments	563,325
Additional Working Capital at 20%	112,665
Total Revenue Requirement	3,922,699
Other Revenue ( )	(206,503)
Non Utility Income ( )	(16,331)
Interest Income ( )	(121,752)
Revenue Required From Water Sales	3,578,113
Revenue from Sales at Present Rates ( )	(3,091,187)
Required Revenue Increase / (Decrease)	<u>\$ 486,926</u>
Percentage Increase / (Decrease)	<u>15.75%</u>

To determine the reasonableness of the rates requested by Laurel District No. 2, Commission Staff (Staff) performed a limited financial review of Laurel District No. 2's test-year operations. The scope of Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable<sup>16</sup> changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Laurel District No. 2's Overall Revenue Requirement, and Elizabeth Stefanski reviewed Laurel District No. 2's reported revenues and rate design.

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<sup>16</sup> 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).

## SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Staff calculated Laurel District No. 2's required revenue from water sales is \$3,839,967 to meet the Total Revenue Requirement of \$4,162,990 and that a \$748,780 revenue increase, or 24.22 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Laurel District No. 2 proposed a 15.75 percent rate increase that would be allocated evenly across the board for all its water customers.<sup>17</sup> Laurel District No. 2 stated that it did not file a cost-of-service study (COSS) at this time,<sup>18</sup> and stated that it did consider filing a COSS, but there were no material changes to its operations; a COSS would provide a limited benefit to the district and the current application.<sup>19</sup> The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.<sup>20</sup> The rates set forth in Appendix B to this report are based upon the pro forma revenue requirement, as calculated by Staff,

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<sup>17</sup> Application, Attachment\_12\_LCWD\_\_Rate\_Study\_25-353.xlsx, Tab Revenue Requirements.

<sup>18</sup> Laurel District No. 2's Response to Staff's First Request, Item 17a.

<sup>19</sup> Laurel District No. 2's Response to Staff's First Request, Item 17a and 17b.

<sup>20</sup> Case No. 2024-00155, *Electronic Application of Cannonsburg Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Apr. 8, 2025); Case No. 2024-00242, *Electronic Application of Wood Creek Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 21, 2025); Case No. 2024-00068, *Electronic Application of Simpson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 29, 2024); and Case No. 2024-00002, *Electronic Application of Nebo Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 2, 2024).

and will produce sufficient revenues from water sales to recover the \$3,839,967 revenue required from rates, an approximate 24.22 percent increase. The rate increase will increase the monthly water bill for a typical residential customer using approximately 4,000<sup>21</sup> gallons per month from \$32.58 to \$40.48 for an increase of \$7.90 or approximately 24.25 percent.

3. Nonrecurring Charges and Meter Connection Charges. Following the Commission's previous decisions identifying issues with the calculation of Nonrecurring Charges,<sup>22</sup> Staff reviewed Laurel District No. 2's Nonrecurring Charges stated in its current tariff as Special Charges.<sup>23</sup> The Commission previously found that because district personnel are paid during normal business hours, estimated labor costs previously included in determining the amount of the Nonrecurring Charges should be eliminated from the charges considering those expenses are recovered as part of salaries and wages expense. In Case No. 2021-00385, the Commission removed labor expenses from Laurel District No. 2's Nonrecurring Charges,<sup>24</sup> so the current tariff does not include Field Labor Cost and Office/Clerical Labor Costs for charges which occur during regular business hours.

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<sup>21</sup> Application, Attachment\_12\_LCWD\_\_Rate\_Study\_25-353.xlsx, Tab, Bills.

<sup>22</sup> Case No. 2024-00155, *Electronic Application of Cannonsburg Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Apr. 8, 2025); Case No. 2024-00242, *Electronic Application of Wood Creek Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 21, 2025); Case No. 2024-00068, *Electronic Application of Simpson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 29, 2024); and Case No. 2024-00002, *Electronic Application of Nebo Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 2, 2024).

<sup>23</sup> Tariff, Sheet No. 15, Section 29.

<sup>24</sup> Case No. 2021-00385, *Electronic Application of Laurel County Water District No. 2 for a Rate Adjustment* (Ky. PSC Nov. 1, 2022), final Order at 7-9.

Laurel District No. 2 provided updated cost justification information, including labor expenses, for the Nonrecurring Charges shown in Appendix A.<sup>25</sup> Laurel District No. 2's cost justification sheet for Service Reconnection Charge,<sup>26</sup> Meter Test Charge,<sup>27</sup> and Service Reconnection Charge-After Hours<sup>28</sup> indicated a charge for one Service Truck at \$30.00. Laurel District No. 2's cost justification sheets for Meter Reread Charge, Additional Trip Charge, and Return Check Charge indicated a charge for a Service Truck in the amount of \$15.00.<sup>29</sup> In response to Staff's request, Laurel District No. 2 provided mileage information indicating average miles per trip of 20.2 multiplied by the Internal Revenue Service (IRS) current standard business mileage rate of 72.5 cents per mile, an increase of 2.5 cents from the IRS rate in 2025,<sup>30</sup> for the transportation expenses for all items in the table below.<sup>31</sup> In addition, a breakdown was provided of the expense titled LWD Contribution,<sup>32</sup> which consisted of various payroll items,<sup>33</sup> so were therefore

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<sup>25</sup> Laurel District No. 2's Response to Staff's First Request, Item 20.

<sup>26</sup> Laurel District No. 2's Response to Staff's First Request, Item 20\_Regular\_Business\_Hour\_Reconnect\_Cost\_Justification.xlsx.

<sup>27</sup> Laurel District No. 2's Response to Staff's First Request, Item 20\_Meter\_Test\_Charge\_Cost\_Justification.xlsx.

<sup>28</sup> Laurel District No. 2's Response to Staff's First Request, Item 20\_After\_Hours\_Reconnect\_Cost\_Justification.xlsx.

<sup>29</sup> Laurel District No. 2's Response to Staff's First Request, Item 20\_Meter\_Reread\_Charge\_Cost\_Justification.xlsx, and Laurel District No. 2's Response to Staff's First Request, Item 20\_Aditional\_Trip\_Charge\_Cost\_Justification.xlsx.

<sup>30</sup> See <https://www.irs.gov/newsroom/irs-sets-2026-business-standard-mileage-rate-at-725-cents-per-mile-up-25-cents>.

<sup>31</sup> Laurel District No. 2's Response to Staff's Fourth Request.

<sup>32</sup> LWD Contribution is an abbreviation of Laurel Water District Contribution.

<sup>33</sup> LWD Contribution: FICA Employer Match, Retirement Employer Contribution, Health Insurance, HRA, Life Insurance/AD&D, Other Benefits-phone allowance, Other Benefits-boot allowance, and Workers Compensation.

excluded from Staff's recommended revised charges.<sup>34</sup> The Return Check Charge cost justification filed by Laurel District No. 2 totaled \$33.45 and included Labor and Transportation costs, with no fee charged by Laurel District No. 2's bank for returned checks.<sup>35</sup> Staff recommends a revised charge of \$15 for the Return Check Charge based on Laurel District No. 2's statement concerning the notification procedure to a customer concerning the returned checks, in which an employee travels to the customer location with a physical door hanger.<sup>36</sup> Laurel District No. 2's Service Connection Charge and the Meter Test Charge Cost decreased due to the mileage calculation provided in response to Staff's request.<sup>37</sup> The Meter Reread Charge Cost and the Additional Trip Charge Cost increased due to the mileage calculation provided by Laurel District No. 2.<sup>38</sup> The Service Reconnection Charge - After Hours increased due to higher labor expenses reflected in Appendix A. Staff recommends accepting the revised charges for the additional nonrecurring charges listed in the table below based on Laurel District No. 2's updated transportation expenses.

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<sup>34</sup> Laurel District No. 2's Response to Staff's Fourth Request, LWD\_CONTRIBUTION.pdf.

<sup>35</sup> Laurel District No. 2's Response to Staff's First Request, Item 20\_Return\_Check\_Charge\_Cost\_Justification.xlsx and Laurel District No. 2's Response to Staff's Fourth Request, Item 7b.

<sup>36</sup> Laurel District No. 2's Response to Staff's Fourth Request, Item 7b.

<sup>37</sup> Laurel District No. 2's Response to Staff's Fourth Request, Items 5 and 6.

<sup>38</sup> Laurel District No. 2's Response to Staff's Fourth Request, Items 2 and 4.

<u>Nonrecurring Charge</u>	Current Charge	Revised Charge
Service Reconnection Charge	\$25.00	\$ 15.00
Service Reconnection Charge After Hours	\$80.00	\$ 113.00
Meter Reread Charge	\$13.00	\$ 15.00
Additional Trip Charge	\$13.00	\$ 15.00
Meter Test Charge	\$27.00	\$ 17.00
Return Check Charge	\$13.00	\$ 15.00

Laurel District No. 2 provided an updated cost justification sheet for its 3/4-inch Meter Connection.<sup>39</sup> Staff reviewed the information provided by Laurel District No. 2 and recommends the Commission increase the meter connection charges as shown in the table below, because the higher rates are based on amounts provided in the supporting documentation.<sup>40</sup>

<u>Description</u>	Current Charge	Revised Charge
5/8 x 3/4 Inch Water Tap On	\$ 1,007.00	\$ 1,497.00
All Larger Meters	Actual Cost	Actual Cost

### PRO FORMA OPERATING STATEMENT

Laurel District No. 2's Pro Forma Operating Statement for the test year ended December 31, 2024, as determined by Staff appears in the following table.

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<sup>39</sup> Laurel District No. 2's Response to Staff's First Request, Item 22.

<sup>40</sup> Laurel District No. 2's Response to Staff's First Request, Item 22.

Description	Test Year	Laurel County WD		Commission	Total	(Ref)	Pro Forma
		#2 Proposed	Adjustments	Staff			
		Adjustments		Adjustments	Adjustments		
<b>Operating Revenues</b>							
Residential Metered Sales	\$ 2,174,947	\$ 40,198	\$ -	\$ 40,198	(A)	\$ 2,215,145	
Commercial Metered Sales	586,546	-	-	-		586,546	
Industrial Metered Sales	289,496	-	-	-		289,496	
<b>Other Revenues</b>							
Miscellaneous Service Revenues	206,503	-	(21,563)	(21,563)	(B)	184,940	
<b>Total Operating Revenues</b>	<b>3,257,492</b>	<b>40,198</b>	<b>(21,563)</b>	<b>18,635</b>		<b>3,276,127</b>	
<b>Operation and Maintenance</b>							
Salaries and Wages - Employees	1,117,626	100,680	3,339	104,019	(C1)		
		(16,994)	16,994	-	(C2)	1,221,645	
Salaries and Wages - Officers	30,000	-	-	-	(D)	30,000	
Employee Benefits	403,483	-	(49,169)	(49,169)	(E1)		
		(1,697)	4,946	3,249	(E2)	357,563	
Employee Pensions		-	49,169	49,169	(E1)		
			178,961	178,961	(F1)		
		(10,940)	(28,233)	(39,173)	(F2)		
			21,894	21,894	(F3)	210,851	
Purchased Water	46			-		46	
Purchased Power	206,981			-		206,981	
Chemicals	100,110			-		100,110	
Materials and Supplies	210,769	(39,653)	39,653	-	(G)	210,769	
Contractual Services - Eng.	1,155			-		1,155	
Accounting	12,900			-		12,900	
Legal	4,007			-		4,007	
Water Testing	29,754			-		29,754	
Other	18,496			-		18,496	
Rental Equipment	864			-		864	
Transportation Expenses	62,370			-		62,370	
Insurance - Gen Liab.	34,657			-		34,657	
Insurance - Worker's Compensation	8,207			-		8,207	
Bad Debt	22,370			-		22,370	
Miscellaneous Expenses	88,334	-	(2,508)	(2,508)	(H)	85,826	
<b>Total</b>	<b>2,352,129</b>	<b>31,396</b>	<b>235,046</b>	<b>266,442</b>		<b>2,618,571</b>	
Amortization	5,849	3,112	-	3,112	(I)	8,961	
Depreciation Expense	682,966	(718)	-	(718)	(J1)		
		76,481	(668)	75,813	(J2)	758,061	
Taxes Other Than Income	89,326	6,169	5,912	12,081	(K)	101,407	
<b>Total Operating Expenses</b>	<b>3,130,270</b>	<b>116,440</b>	<b>240,290</b>	<b>356,730</b>		<b>3,487,000</b>	
<b>Net Operating Income</b>	<b>127,222</b>	<b>(76,242)</b>	<b>(261,853)</b>	<b>(338,095)</b>		<b>(210,873)</b>	
Rental Income	16,331			-		16,331	
Interest Income	121,752			-		121,752	
<b>Income Available to Service Debt</b>	<b>\$ 265,305</b>	<b>\$ (76,242)</b>	<b>\$ (261,853)</b>	<b>\$ (338,095)</b>		<b>\$ (72,790)</b>	

(A) Water Sales. Laurel District No. 2 proposed an increase of \$40,198 to Operating Revenues and provided a billing analysis listing the water usage and water sales revenue for the 12-month test year of 2024, with total metered water sales revenue

calculated as \$3,091,187.<sup>41</sup> During the test year, Laurel District No. 2 reported \$3,050,989 in Water Sales.<sup>42</sup>

Staff recommends accepting Laurel District No. 2's proposed increase of \$40,198 to Water Sales to normalize water service revenues to the amounts reported in its billing analysis.<sup>43</sup>

(B) Other Water Revenues. During the test year, Laurel District No. 2 reported \$206,503<sup>44</sup> in Miscellaneous Service Revenues composed of three subparts: Forfeited Discounts (Late Fees) in the amount of \$57,366,<sup>45</sup> Nonrecurring Charges in the amount of \$60,963,<sup>46</sup> and Other Revenues in the amount of \$88,174.<sup>47</sup> Laurel District No. 2 did not propose any adjustments to Other Water Revenues in its application.

Description	Test Year	Laurel District			Pro Forma
		#2's Adjustment	Staff Adjustments	Total Adjustment	
Forfeited Discounts	\$ 57,366	\$ -	\$ -		\$ 57,366
Nonrecurring Charges	60,963	-	(21,563)		39,400
Other	88,174	-	-		88,174
<b>Total</b>	<b>\$206,503</b>	<b>\$ -</b>	<b>\$ (21,563)</b>		<b>\$ 184,940</b>

<sup>41</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference A.

<sup>42</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf.

<sup>43</sup> Application, Attachment\_12\_LCWD\_\_\_Rate\_Study\_25-353.xlsx.

<sup>44</sup> Laurel District No. 2's Response to Staff's First Request, Item 6\_Miscellaneous\_Service\_Revenue\_2024\_Recap.xlsx.

<sup>45</sup> Laurel District No. 2's Response to Staff's First Request, Item 18.

<sup>46</sup> Laurel District No. 2's response to Staff's First Request, Item 19\_Special\_Charges\_2024.xlsx.

<sup>47</sup> Laurel District No. 2's Response to Staff's First Request, Item 6\_Miscellaneous\_Service\_Revenue\_2024\_Recap.xlsx and Laurel District No. 2's response to Staff's First Request, Item 19\_Special\_Charges\_2024.xlsx.

Laurel District No. 2 provided the occurrences for late fees for 2024 and 2025,<sup>48</sup> stated the district does not track specific nonrecurring charges,<sup>49</sup> and provided an estimated number of occurrences for various charges.<sup>50</sup> Based on this information and the current tariff charges, Staff calculated a pro forma Miscellaneous Revenues of \$39,400 as shown in the table below, in which Staff removed the regular business hours field and office labor, and adjusted the transportation expense upward, from Laurel District No. 2's cost justification documentation.

Nonrecurring Charges	Occurrences	Current Charge	Revised Charge	Test Year	Revenue Adjustment	Pro Forma
Service Reconnection Charge	2,287	\$ 25.00	\$15.00	\$57,175	(\$22,870)	\$34,305
Service Reconnection Charge After Hours	35	\$ 80.00	\$113.00	2,800	1,155	3,955
Meter Reread Charge	-	\$ 13.00	\$15.00	-	-	-
Additional Trip Charge	19	\$ 13.00	\$15.00	247	38	285
Meter Test Charge	-	\$ 27.00	\$17.00	-	-	-
Return Check Charge	57	\$ 13.00	\$15.00	741	114	855
				<u>\$60,963</u>	<u>(\$21,563)</u>	<u>\$39,400</u>

Staff recommends the Commission accept Staff's proposed adjustment to decrease Other Revenues by \$21,563 for the reasons discussed in the Nonrecurring Charges and Meter Connection Charges section. Additionally, Staff recommends the Commission order Laurel District No. 2 to begin tracking the number of occurrences for each nonrecurring charge.

(C) Salaries and Wages - Employees. During the test year, Laurel District No. 2 reported \$1,117,626 in Salaries and Wages – Employees and proposed two

<sup>48</sup> Laurel District No. 2's Response to Staff's First Request, Item 18, Attachment 18\_Late\_Fees\_(Penalties)\_2023,\_2024,\_2025.pdf.

<sup>49</sup> Laurel District No. 2's Response to Staff's First Request, Item 19.

<sup>50</sup> Laurel District No. 2's Response to Staff's First Request, Item 19, 19\_Special\_Charges\_2024.xlsx; 19\_GL\_Service\_-\_Nonrecurring\_Charges\_2024.pdf.

adjustments.<sup>51</sup> First, Laurel District No. 2 proposed an increase of \$100,680<sup>52</sup> due to employee turnover and an additional employee hired.<sup>53</sup> Laurel District No. 2 provided the test year employee list, wage rate, and hours worked<sup>54</sup> along with the current wage rates and current employee list.<sup>55</sup> Laurel District No. 2 has four full-time salary employees, 16 full-time hourly, and two part-time hourly employees.<sup>56</sup> Laurel District No. 2 stated that one employee regularly works holidays and is paid for regular hours and holiday pay.<sup>57</sup> Staff normalized the pro forma regular hours for all full-time hourly employees to 2,080. For the one employee who regularly works during the holidays, Staff used his actual hours since it is a standard occurrence, which Laurel District No. 2 considers full time as shown in the table below.<sup>58</sup> While Staff agrees with Laurel District No. 2's methodology, a different adjustment was calculated during review. Staff calculated a total Salaries and Wages – Employees of \$1,221,645, an increase of \$104,019 (C1), as shown in the table below.

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<sup>51</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

<sup>52</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

<sup>53</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference, Adjustment B.

<sup>54</sup> Application, Attachment\_12\_LCWD\_Rate\_Study\_25-353.xlsx, Wages Tab.

<sup>55</sup> Application, Attachment\_12\_LCWD\_Rate\_Study\_25-353.xlsx, Wages Tab.

<sup>56</sup> Application, Attachment\_12\_LCWD\_Rate\_Study\_25-353.xlsx, Wages Tab.

<sup>57</sup> Laurel District No. 2's response to Staff's Second Request, Item 3.

<sup>58</sup> Laurel District No. 2's response to Staff's First Request, Item 7c.

Employee	Normalized			Pro Forma Wage Rate	Pro Forma Reg. Wages	Pro Forma		Pro Forma Wages
	Regular Hours	Overtime Hours	Vacation Hours			Overtime Wages	Vacation Wages	
Distribution Supervisor	2,080			Salary	\$ 64,670			\$ 64,670
Plant Manager/Asst Superintendent	2,080		120	Salary	76,091		\$ 4,390	80,480
Plant Operator-Safety Officer	2,272	767		\$ 29	65,956	\$ 33,396	-	99,353
Distribution Operator	2,080	123	43	22	45,219	4,018	941	50,178
Plant Operator	2,080	157	71	24	49,483	5,595	1,695	56,774
Superintendent	2,080		40	Salary	107,813		2,073	109,886
Customer Service/Readings/Payroll Clerk	2,080	14	3	23	47,861	477	67	48,406
Plant Operator	2,080	26		21	43,680	805	-	44,485
Customer Service/Inventory/Accts Payable Clerk	2,080	12	43	21	43,701	380	899	44,980
Distribution Laborer	2,080	85	4	18	36,878	2,265	66	39,210
Plant Operator	2,080	419	112	26	54,246	16,407	2,921	73,575
Distribution Operator	2,080	120	76	26	55,016	4,750	2,011	61,777
Plant Operator	2,080	20	121	25	51,688	739	3,002	55,429
Part-time Customer Service/bookkeeping	1,020			21	21,118	-	-	21,118
Part-time Customer Service	569			16	8,838	-	-	8,838
Customer Service	2,080	6	3	19	39,811	173	53	40,037
Distribution Operator	2,080	144	45	25	51,792	5,367	1,115	58,274
Plant Operator	2,080	64	34	21	43,680	2,019	710	46,408
Meter Reader	2,080	52	57	20	41,829	1,572	1,143	44,544
Distribution Operator	2,080	74		21	43,680	2,328	-	46,008
Office Manager/Accountant/Asst Superintendent	2,080		19	Salary	92,066		830	92,896
Distribution Laborer	2,080			17	34,320	-	-	34,320
<b>Total Salaries and Wages</b>	<b>43,381</b>	<b>2,082</b>	<b>790</b>		<b>\$1,119,436</b>	<b>\$ 80,292</b>	<b>\$21,916</b>	<b>1,221,645</b>
Test year Salary and Wages - Employee ( )								(1,117,626)
Total Salary and Wages - Employee Adjustment								104,019
Laurel County WD # 2's Proposed Adjustment ( )								(100,680)
Difference								<u>\$ 3,339</u>

Staff recommends the Commission accept Staff's calculated increase of \$104,019 since it reflects the normalization of full-time employees' hours worked and actual part-time employees' hours worked at current wage rates.

In the application, Laurel District No. 2 also proposed a decrease of \$16,994<sup>59</sup> due to the removal of labor expense for new tap installations performed in the test year.<sup>60</sup> Staff noted that although Laurel District No. 2 initially proposed an adjustment to capitalize the labor expenses associated with the new tap installation, Laurel District No. 2 did not propose a corresponding adjustment to depreciation to account for the capitalization in the application. Laurel District No. 2 stated that while preparing responses, an adjustment that reduced labor expenses was discovered. The adjustment was proposed by Laurel

<sup>59</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

<sup>60</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment C.

District No. 2's consultant , unaware that Laurel District No. 2 already recorded the expenses as part of the assets cost.<sup>61</sup> Staff reviewed Laurel District No. 2's General Ledger and confirmed that labor was capitalized as a year-end adjustment.<sup>62</sup> Therefore, no additional adjustment to Depreciation Expense is required to account for the capitalization of tap labor expense.

The Uniform System of Accounts (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.<sup>63</sup> Staff identified that the expenses were capitalized, so the proposed adjustment would double the capitalization of expenses and was not included in the Staff's adjustment to Salary and Wages – Employees.

Staff recommends the Commission accept the Staff's proposed adjustment of a total of \$104,019 for Salary and Wages – Employees.

(D) Salaries and Wages – Officers. Laurel District No. 2 reported a test-year amount of \$30,000.<sup>64</sup> Laurel District No. 2's Board of Commissioners (Board) has five members who were each paid \$6,000 during the test year to comprise \$30,000. Laurel District No. 2 provided the Laurel County Fiscal Court minutes approving their

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<sup>61</sup> Laurel District No. 2's Response to Staff's First Request, Item 15b.

<sup>62</sup> Laurel District No. 2's Response to Staff's First Request, Item 3a, 3\_a\_2024\_General\_Ledger\_Analysis.xlsx, Rows 79 thru 162, Account Number 00101-3314 Transition and Distribution Mains; Rows 163 thru 206, Account Number 00101-3334 Services; and Rows 207 thru 226, Account Number 15100101-3344 Meters and Meter Installations.

<sup>63</sup> USoA, Accounting Instruction 19 and 33.

<sup>64</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

appointments<sup>65</sup> and compensation.<sup>66</sup> Laurel District No. 2 provided new Commissioner training records for Commissioners Lisa Baker and Theresa Brewer, however, it stated it does not have any information on Commissioners David Moore or Kenneth Finly's new commissioner training records,<sup>67</sup> Staff determined both were hired before the statute<sup>68</sup> required training was put into effect.<sup>69</sup> Laurel District No. 2 did not provide the new Commissioner training certificate for Steven Cornn;<sup>70</sup> however, it did provide evidence of Steven Cornn's attendance.<sup>71</sup> Based on the amount of evidence provided, while Steven Cornn did not sign in, it appears that he did attend the required new commissioner training. As a result, Staff included wages for Steven Cornn and proposes no adjustment. Staff recommends the Commission accept Laurel District No. 2's test year amount for Salary and Wages – Officers.

(E) Employee Benefits. Laurel District No. 2 reported \$403,483 in Employee Pension and Benefits during the test year.<sup>72</sup> Staff determined that separation of the

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<sup>65</sup> Laurel District No. 2's Response to Staff's First Request, Item 11b, 11\_b\_Appointment\_of\_Commissioners\_by\_Fiscal\_Court\_2024\_and\_2025.pdf.

<sup>66</sup> Laurel District No. 2's Response to Staff's First Request, Item 11b, 11\_b\_Fiscal\_Court\_Commissioner\_compenation.pdf.

<sup>67</sup> Laurel District No. 2's Response to Staff's Second Request, Item 6.

<sup>68</sup> KRS 74.020 (Amended 2010 Ky. Acts Ch. 18, sec. 1, effective July 15, 2010).

<sup>69</sup> Laurel District No. 2's response to Staff's Second Request, Item 6.

<sup>70</sup> Staff researched the matter and despite the requirement that all attendees were to sign in and sign out for both July 20<sup>th</sup> and 21<sup>st</sup> 2022, as proof of attendance, Mr. Cornn failed to do so on all four occasions and as a result was not awarded a Certificate of Attendance.

<sup>71</sup> Laurel District No. 2's Response to Staff's Third Request, Items 2, 2\_Cornn\_receipts.pdf, Item 2, Cornn\_training.pdf, Item 2, 2\_Cornn\_sworn\_statement.pdf, and Item 2, 2\_Creekmore\_sworn\_statement.pdf; and Item 6, 6\_New\_Commissioner\_Training\_Certificates.pdf.

<sup>72</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments, Attachment 4, Schedule of Adjusted Operations.pdf.

medical and related costs from retirement benefits was appropriate to reflect the different basis of adjustments and reclassified \$49,169 (E1) to Employee Pensions. Laurel District No.2 stated that it provides Medical and Life insurance to its employees, and the employees pay 100 percent of Dental insurance.<sup>73</sup> Laurel District No. 2 proposed one adjustment to Employee Benefits, a decrease of \$1,697 due to a reduction in Health and Life insurance cost.<sup>74</sup> Staff recalculated the cost per employee based on the most recent invoice provided by Laurel District No. 2,<sup>75</sup> which resulted in a pro forma Health and Life insurance of \$329,592 an increase of \$3,249, which is \$4,946 more than Laurel District No. 2's \$1,697 proposed decrease, as shown in the table below.

Type of Premium	Number of Employees	Total Cost
Medical Insurance - Employee Only	11	\$ 6,767
Medical Insurance - Employee + Spouse	2	4,350
Medical Insurance - Family	6	15,221
Total Medical Insurance	19	26,338
Life Insurance		1,128
Total Monthly Pro Forma Premium		27,466
Multiplied by: 12 Months		12
Total Annual Gross Health Insurance Cost		\$ 329,592
Test Year Health Insurance ( )		(326,343)
Commission Staff's Adjustment		3,249
Laurel District's Adjustment ( )		1,697
Difference		<u>\$ 4,946</u>

<sup>73</sup> Laurel District No. 2's Response to Staff's First Request, Item 8.

<sup>74</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Reference D.

<sup>75</sup> Laurel District No. 2's Response to Staff's Third Request, Item 5, 5\_Guardian\_invoice\_employee\_19.pdf, 5\_KACo\_invoice\_employee\_19.pdf.

Staff recommends the Commission accept Staff's adjustment to increase Employee Benefits by \$3,249 (E2) to reflect the annualization of current insurance premiums.

(F) Employee Pensions. As discussed above, Staff reclassified \$49,169 (E1) from Employee Pension and Benefits to Employee Pensions. Laurel District No. 2 participates in the County Employee Retirement System (CERS),<sup>76</sup> which is managed by the Kentucky Public Pension Authority (KPPA). Laurel District No. 2 proposed a decrease of \$10,940<sup>77</sup> to reflect the change in salaries and wages contribution rates.<sup>78</sup> Staff recommends three adjustments to Laurel District No. 2's CERS contributions.

In Case No. 2016-00163,<sup>79</sup> Staff discussed in detail how reporting requirements for Governmental Accounting Standards Board (GASB) 68 and GASB 75 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>80</sup> First, Staff recommends an increase of \$178,961 (F1) for Pension and Other Post Employment Benefits (OPEB) related to GASB 68 and GASB 75. Staff also recommends a total decrease of \$39,173 (F2) to account for the reduction in the CERS contribution rate from the test year. Third, Staff recommends an increase of \$21,894 (F3)

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<sup>76</sup> Application, Attachment 12, Attachment\_12\_LCWD\_Rate\_Study\_25-353.xlsx, Wages Tab, Cells O3 thru P7.

<sup>77</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment, Adjustment E.

<sup>78</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment, References, Adjustment E.

<sup>79</sup> Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District (Ky. PSC Nov. 10, 2016)*, Order at 11–15.

<sup>80</sup> Case No. 2016-00163, Nov 11, 2016 final Order at 15, Item 10.

to account for the increase in wages discussed above. The recommended adjustments result in a net increase of \$161,682 as shown in the table below.

Description	Test Year	Pro Forma
Wages	\$ 1,117,626	\$ 1,169,773
Contribution Rate	21.53%	18.03%
Contributions	240,625	210,851
Excess (Cost) / Income Over Contributions	(178,961)	
Utility Liability Adjustment	(12,495)	-
Total Contributions	<u>\$ 49,169</u>	210,851
Reclassified Test Year Employee Pensions ( )		(49,169)
Total Increase		161,682
Laurel District No. 2's Proposed Adjustment ( )		10,940
Difference		<u>\$ 172,622</u>

Reconciliation	Laurel District No. 2	Staff's Adjustment	Total Adjustment	(Ref)
Eliminate GASB 68 and 75 Adjustments	\$ -	\$ 178,961	\$ 178,961	(F1)
Change in Contribution Rate	(10,940)	(28,233)	(39,173)	(F2)
Change in Wages	-	21,894	21,894	(F3)
Total	<u>\$ (10,940)</u>	<u>\$ 172,622</u>	<u>\$ 161,682</u>	

Staff recommends the Commission accept Staff's net increase of \$161,682 to Employee Pensions as the amounts are a known and measurable change based on the proper recording for GASB 68 and 75 and reflects current Salaries and Wages at current contribution levels.

(G) Materials and Supplies. During the test year, Laurel District No. 2 reported \$210,769 in Materials and Supplies.<sup>81</sup> Laurel District No. 2 proposed to decrease Materials and Supplies by \$39,653<sup>82</sup> to capitalize the material costs used on tap

<sup>81</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

<sup>82</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment, Adjustment E.

installations.<sup>83</sup> Laurel District No. 2 installed 46 new taps<sup>84</sup> and collected \$56,647 during the test year.<sup>85</sup>

Connection Size	Number of Connections	Per unit Cost	Total cost
5/8 x 3/4- inch	44	\$ 1,007	\$ 44,308
2 -inch	2	Actual Cost	12,339
Total	<u>46</u>		<u>\$ 56,647</u>

In the application, Laurel District No. 2 initially proposed an adjustment to capitalize the material expenses associated with the new tap installation, but, it did not propose a corresponding adjustment to depreciation to account for the capitalization of the materials.<sup>86</sup> Laurel District No. 2 stated that while preparing responses, it discovered that its consultant incorrectly proposed an adjustment and reduced materials expenses, unaware that Laurel District No. 2 already recorded the expenses as part of the assets cost.<sup>87</sup> Staff reviewed Laurel District No. 2’s general ledger and determined the materials and supplies expenditures were charged to the individual assets throughout the year; and not included in Materials and Supplies Expense.<sup>88</sup> Therefore, no adjustment is required to account for the capitalization of Tap fee materials expense.

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<sup>83</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment, Reference Adjustment C.

<sup>84</sup> Laurel District No. 2’s Response to Staff’s First Request, Item 15a.

<sup>85</sup> Laurel District No. 2’s Response to Staff’s First Request, Item 19, 19\_GL\_Tap\_Fees\_2024.pdf.

<sup>86</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References Adjustment C.

<sup>87</sup> Laurel District No. 2’s Response to Staff’s First Request, Item 15c.

<sup>88</sup> Laurel District No. 2’s Response to Staff’s First Request, Item 3a, 3\_a\_2024\_General\_Ledger\_Analysis.xlsx, Rows 151, 201, and 226.

The USoA requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.<sup>89</sup> Staff has identified through its review of the general ledger that the expenses have already been capitalized; therefore, Staff disagrees with the proposed adjustment.

Staff recommends the Commission deny Laurel District No. 2's proposed decrease of \$39,653 to Materials and Supplies since the General Ledger identified that the materials and supplies expenses were already capitalized in accordance with the USoA guidelines.

(H) Miscellaneous Expense. Laurel District No. 2 reported \$88,334 in Miscellaneous Expenses during the test year and did not propose any adjustments.<sup>90</sup> Staff reviewed Laurel District No. 2's General Ledger and identified expenses totaling \$2,508, that Staff recommends be removed from the revenue requirement.<sup>91</sup> Staff recommends removing the expenses related to the Christmas meeting, employee recognition, and safety meeting meals because these costs are not directly related to Laurel District No. 2's ability to provide service to its customers and therefore should not be recovered through rates. The adjustment results in a total reduction of \$2,508, as shown in the following table.

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<sup>89</sup> USoA, Accounting Instruction 19 and 33.

<sup>90</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

<sup>91</sup> Laurel District No. 2's Response to Staff's First Request, Item 3a, 3\_a\_2024\_General\_Ledger\_Analysis.xlsx.

00675-0008 Miscellaneous Expense

Date	Reference	Description	Amount
3/27/2024	8039	Papa Johns- Safety meeting	\$ 149
8/27/2024	8147	Papa Johns- Safety meeting	155
11/21/2024	8219	Sheryl Osborne- Food/ Safety Meeting	400
12/12/2024	8233	Walmart- Christmas meeting supplies	60
12/12/2024	8238	Cracker Barrel- Christmas meeting	920
12/12/2024	8241	E C Porter IGA-hams & turkey	642
12/18/2024	8245	Papa Johns- Safety meeting	182
Total			\$ 2,508

Staff recommends the Commission accept Staff's adjustment to decrease Miscellaneous Expense by \$2,508, as the amounts are known and measurable and reflect the removal of expenses not directly related to Laurel District No. 2's ability to provide service to its customers.

(l) Amortization – Rate Case Expense. During the test year, Laurel District No. 2 reported \$5,849 in Amortization Expenses.<sup>92</sup> Laurel District No. 2 proposed to increase Amortization Expense by \$3,112<sup>93</sup> to reflect the amortization of current rate case expense over three years.<sup>94</sup> Laurel District No. 2 contracted with Kentucky Rural Water Association (KRWA) to assist with the application.<sup>95</sup> KRWA provided an estimated total cost not to exceed \$9,335 quote for consulting services to prepare the rate case.<sup>96</sup> Laurel District No. 2 then proposed to amortize \$9,335 over three years for an annual amount of

<sup>92</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

<sup>93</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

<sup>94</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment F.

<sup>95</sup> Laurel District No. 2's Response to Staff's First Request, Item 12a.

<sup>96</sup> Laurel District No. 2's Response to Staff's First Request, Item 12d, 12\_d\_KRWA\_Proposed\_Rate\_Study\_2025.pdf.

\$3,112. Staff agrees with the recovery of the costs over three years. Staff calculated the annual rate case expense by dividing the total rate case expense of \$9,335 over a three-year period, resulting in an annual cost of \$3,112, as shown below.

Description	Amount
Estimated Rate Case Cost	\$ 9,335
Amortization Years	3
Annual Rate Case Expense	<u>\$ 3,112</u>

Staff recommends the Commission accept Laurel District No. 2's increase of \$3,112 to Amortization - Rate Case Expense to reflect the recovery of the estimated Total Rate Case Expense over a three-year period because the amounts are known and measurable.

Depreciation Expense. During the test year, Laurel District No. 2 reported \$682,966 in Depreciation.<sup>97</sup> Laurel District No. 2 proposed two adjustments. First, it proposed a \$718<sup>98</sup> decrease to reflect two assets that were taken out of service and removed from the 2024 depreciation schedule.<sup>99</sup> Staff reviewed the asset disposition<sup>100</sup> and depreciation reconciliation<sup>101</sup> and agrees with Laurel District No. 2's \$718 decrease to Depreciation Expense as it accurately reflects the removal of the two items taken out of service. Staff recommends the Commission accept Laurel District No. 2's adjustment

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<sup>97</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

<sup>98</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

<sup>99</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment G.

<sup>100</sup> Laurel District No. 2's Response to Staff's First Request, Item 13, 13\_Asset Disposition\_12\_31\_24.pdf.

<sup>101</sup> Laurel District No. 2's Response to Staff's First Request, Item 13, 13\_2024\_Depreciation\_Reconciliation.pdf.

because the assets were disposed of and therefore should not be included for future years.

Laurel District No. 2 also proposed an increase of \$76,481<sup>102</sup> to bring asset lives to the midpoint of the ranges recommended by the National Association of Regulatory Utility Commissioners (NARUC) in its publication “Depreciation for Small Utilities”.<sup>103</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 NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. In its application, Laurel District No. 2 provided a depreciation schedule of all fixed assets in use.<sup>104</sup> Staff reviewed and recalculated the depreciation schedules using the NARUC’s midpoint useful life ranges as shown in the table below. Staff calculated a \$75,813 (12) increase to Depreciation Expense which is \$688 less than Laurel District No. 2’s proposed adjustment.

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<sup>102</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

<sup>103</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference Adjustment H.

<sup>104</sup> Application, Attachment\_7\_LCWD\_2\_Depreciation\_Schedule\_2024.xls.

Asset Class	NARUC		Depreciation Adjustment	Pro Forma Depreciation
	Recommended Service Lives	Test Year Depreciation		
Structures and Improvements	35 - 40	\$ 226,352	\$ 29,407	\$ 255,759
Communication & Computer Equipment	10	12,459	2,508	14,967
Office Furniture & Equipment	20 - 25	2,092	451	2,543
Power Operated Equipment	10 - 15	27,955	11,962	39,917
Tools & Shop Equipment	15 - 20	3,847	670	4,517
Lake, River and Other Intakes	35 - 40	1,997	-	1,997
Pumping Equipment	20	8,469	10,870	19,339
Hydrants	40 - 60	1,717	173	1,890
Transmissions & Dist. Mains	50 - 75	205,866	(26,300)	179,566
Meter Installation	40 - 50	7,352	348	7,700
Meters	15	33,112	52,602	85,714
Services	30 - 50	16,697	125	16,822
Dist. Reservoirs & Standpipes	30 - 60	113,612	(12,624)	100,988
Tank Painting & Repair	15	2,597	4,958	7,555
Transportation Equipment	7	15,971	332	16,303
Water Treatment Equipment	20 - 35	2,153	331	2,484
Adjusted Depreciation Total		<u>\$ 682,248</u>	75,813	<u>\$ 758,061</u>
Laurel County District's Proposed Adjustment ( )			(76,481)	
Difference			<u>\$ (668)</u>	

Staff recommends the Commission accept Staff's \$75,813 adjustment, which is a decrease of \$668 to Laurel District No. 2's Depreciation Expense, as it is known and measurable and reflects the adjusted lives to those recommended in the NARUC study.

(J) Taxes Other Than Income. During the test period, Laurel District No. 2 reported \$89,326 in Taxes Other Than Income.<sup>105</sup> Laurel District No. 2 proposed an adjustment to increase Taxes Other Than Income by \$6,169<sup>106</sup> to reflect the increase in payroll taxes as a result of increased wages.<sup>107</sup> As explained in the Salaries and Wages – Employees adjustment, Staff calculated Laurel District No. 2's pro forma Salaries and Wages – Employees as \$1,221,645, and calculated pro forma Salaries and Wages

<sup>105</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

<sup>106</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

<sup>107</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment I.

Officers of \$30,000. Staff calculated the Pro Forma Payroll Taxes of \$95,751, a total increase of \$12,081, which is \$5,912 greater than Laurel District No. 2's \$6,169 proposed increase: as shown in table below.

Description	Amount
Salaries and Wages - Employees	\$ 1,221,645
Salaries and Wages - Officers	30,000
Total Salaries and Wages	1,251,645
Times: 7.65 Percent FICA Rate	7.65%
Pro Forma Payroll Taxes	95,751
Test Year Payroll Taxes ( )	(83,670)
Total Adjustment	12,081
Laurel District # 2's Proposed Adjustment ( )	(6,169)
Difference	<u>\$ 5,912</u>

Staff recommends the Commission accept Staff's additional increase for a total adjustment of \$12,081 to Taxes Other Than Income, because it is a known and measurable change that is a direct result of changes to Salaries and Wages – Employees.

#### OVERALL REVENUE REQUIREMENT

In its application, Laurel District No. 2 proposed using the Debt Service Coverage Method.<sup>108</sup> The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working

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<sup>108</sup> Application, Attachment\_12\_LCWD\_Rate\_Study\_25-353.xlsx, Revenue Requirements Tab.

capital;<sup>109</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.<sup>110</sup>

<i>Debt Service Coverage Method</i>		
Description	Laurel County WD #2	Commission Staff
Pro Forma Operating Expenses	\$ 3,246,709	\$ 3,487,000
Average Annual Principal and Interest Payments	563,325	563,325
Additional Working Capital at 20%	112,665	112,665
Total Revenue Requirement	3,922,699	4,162,990
Other Revenue ( )	(206,503)	(184,940)
Non Utility Income ( )	(16,331)	(16,331)
Interest Income ( )	(121,752)	(121,752)
Revenue Required From Water Sales	3,578,113	3,839,967
Revenue from Sales at Present Rates ( )	(3,091,187)	(3,091,187)
Required Revenue Increase / (Decrease)	\$ 486,926	\$ 748,780
Percentage Increase / (Decrease)	15.75%	24.22%

1. Average Annual Principal and Interest Payments and Additional Working Capital. At the time of Staff's review, Laurel District No. 2 had two loans with the Kentucky Infrastructure Authority (KIA), one loan from the Kentucky Rural Water Finance

<sup>109</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>110</sup> Staff noticed in its review of the Application; Laurel District No. 2 did not round its amounts to the whole dollar while Staff did. This results in a \$1 discrepancy in the Pro Forma Operating Expenses. The rounded proposed adjustments total \$116,440; however, the application presents the unrounded amount of \$116,439.

Corporation (KRWFC), and four Waterworks Revenue Bonds to be purchased by the US. Department of Agriculture's Rural Development (RD). In its application, Laurel District No. 2 requested recovery of the average annual principal and interest on its indebtedness in the amount of \$563,325<sup>111</sup> based on a five-year average of the annual principal, interest, and fee payments for the years 2026 through 2030.<sup>112</sup> Staff reviewed the debt schedule provided<sup>113</sup> and amortization schedules<sup>114</sup> and agrees with the methodology and amount Laurel District No. 2 proposed. The DSC method, as historically applied by the Commission, 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. Laurel District No. 2 requested recovery of an allowance for working capital that is equal to 20 percent of its average annual debt service, or \$112,665.<sup>115</sup> Following the Commission's historic practice of including additional working capital, Staff agrees with Laurel District No. 2's proposed methodology and amount.

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<sup>111</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference J.

<sup>112</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Table B, Debt Service Schedule.

<sup>113</sup> Application, Attachment\_12\_LCWD\_Rate\_Study\_25-353.xlsx, Debt Service Tab.

<sup>114</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference J.

<sup>115</sup> Application, Attachment\_1\_-\_6\_List\_of\_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference K.

Loan	2026		2027		2028		2029		2030		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
KIA B	\$ 9,398	\$ 85	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,483
KIA B19-005	14,133	2,602	14,204	2,503	14,275	2,405	14,346	2,305	14,418	2,203	83,394
KRWFC- WRB2010A	160,000	148,812	165,000	141,906	175,000	134,681	180,000	127,137	190,000	119,268	1,541,804
USDA- RD-WRB2010B	48,000	54,450	50,000	53,010	51,500	51,510	53,000	49,965	55,000	48,375	514,810
USDA-RD-Series 2018	24,000	32,574	24,500	31,907	25,000	31,226	26,000	30,525	26,500	29,803	282,035
2020 Series A	35,500	29,444	36,000	28,823	36,500	28,193	37,000	27,554	38,000	26,906	323,919
2020 Series B	6,500	5,574	7,000	5,460	7,000	5,338	7,000	5,215	7,000	5,093	61,179
Totals	<u>\$297,531</u>	<u>\$273,541</u>	<u>\$296,704</u>	<u>\$263,609</u>	<u>\$309,275</u>	<u>\$253,352</u>	<u>\$317,346</u>	<u>\$242,701</u>	<u>\$330,918</u>	<u>\$231,648</u>	<u>2,816,624</u>
Divided by 5 years											<u>5</u>
Average Annual Principal and Interest Payments											<u>\$ 563,325</u>
Additional Working Capital at 20%											<u>\$ 112,665</u>

Staff recommends the Commission approve Laurel District No. 2's inclusion of \$563,325 and \$112,655 to the Revenue Requirement to account for average annual principal and interest payments, and additional working capital, respectively, 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.

Signatures

/s/ William Foley

Prepared by: William Foley  
Revenue Requirement Branch  
Division of Financial Analysis

/s/ Elizabeth Stefanski

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

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00353 DATED APR 28 2026

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

	Service Reconnection Charge Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$24.00 at 1 hours)	\$24.00	
Office Supplies		
Office Labor		
Transportation (20.2 miles at \$0.725)	\$30.00	\$15.00
LWD contribution (\$12.90 at 1 hr.)	\$12.90	
Total Revised Charge	<u>\$66.90</u>	<u>\$15.00</u>
Current Rate	\$25.00	

	Service Reconnection Charge-After Hours Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$24.00 at 2 hours)	\$48.00	\$48.00
Overtime pay difference (\$12 at 2 hours)	\$24.00	\$24.00
Office Labor		
Transportation (20.2 miles at \$0.725)	\$30.00	\$15.00
LWD contribution (\$12.90 at 2 hr.)	\$25.80	\$25.80
Total Revised Charge	<u>\$127.80</u>	<u>\$113.00</u>
Current Rate	\$80.00	

	Meter Reread Charge Utility Revised Charge	Staff Revised Charge*
Field Materials		
Field Labor (\$24 at 0.5 hours)	\$12.00	
Office Supplies		
Office Labor		
Transportation (20.2 miles at \$0.725)	\$15.00	\$15.00
LWD contribution	\$6.45	
Total Revised Charge	<u>\$33.45</u>	<u>\$15.00</u>

Current Rate		\$13.00	
	Additional Trip Charge		
		Utility Revised Charge	Staff Revised Charge*
Field Materials			
Field Labor (\$24 at 0.5 hours)		\$12.00	
Office Supplies			
Office Labor			
Transportation (20.2 miles at \$0.725)		\$15.00	\$15.00
LWD contribution		\$6.45	
Total Revised Charge		<u>\$33.45</u>	<u>\$15.00</u>

Current Rate		\$13.00	
	Meter Test Charge		
		Utility Revised Charge	Staff Revised Charge*
Field Materials		\$1.80	\$1.80
Field Labor (Travel)		\$24.00	
Field Labor (Test time)		\$24.00	
Transportation (20.2 miles at \$0.725)		\$30.00	\$15.00
LWD contribution		\$25.80	
Total Revised Charge		<u>\$105.60</u>	<u>\$17.00</u>

Current Rate		\$27.00	
	Return Check Charge		
		Utility Revised Charge	Staff Revised Charge
Field Materials			
Field Labor (\$24 at 0.5 hours)		\$12.00	
LWD Contribution		\$6.45	
Office Labor			
Transportation (20.2 miles at \$0.725)		\$15.00	\$15.00
Bank Fee			
Total Revised Charge		<u>\$33.45</u>	<u>\$15.00</u>
Current Rate		\$13.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00353 DATED APR 28 2026

The following rates and charges are recommended by Commission Staff based on the adjustments in Commission Staff's Report for the customers in the area served by Laurel County Water District No. 2. All other rates and charges not specifically mentioned herein shall remain the same.

Monthly Water Rates

5/8-Inch Meter

First	1,000 Gallons	\$18.64	Minimum Bill
Next	99,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$47.76	Minimum Bill
Next	95,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$84.15	Minimum Bill
Next	90,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$156.94	Minimum Bill
Next	80,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$229.74	Minimum Bill
Next	70,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$375.32	Minimum Bill
Next	50,000 Gallons	0.00728	Per Gallon

Over	100,000 Gallons	0.00650	Per Gallon
<u>Campground Heights 1-8</u>			
First	4,000 Gallons	\$64.43	Minimum Bill
Next	96,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon
<u>Campground Heights 9</u>			
First	5,000 Gallons	\$47.73	Minimum Bill
Next	95,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon
<u>ManEnterprises LLC</u>			
First	22,000 Gallons	\$339.21	Minimum Bill
Next	78,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon
<u>KTR LLC</u>			
First	49,000 Gallons	\$751.39	Minimum Bill
Next	51,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon
<u>Chestnut Green</u>			
First	26,000 Gallons	\$400.28	Minimum Bill
Next	74,000 Gallons	0.00728	Per Gallon
Over	100,000 Gallons	0.00650	Per Gallon
<u>Corbin Manor Apt.</u>			
First	200,000 Gallons	\$1,389.33	Minimum Bill
Over	200,000 Gallons	0.00650	Per Gallon

Nonrecurring Charges

Service Reconnection Charge	\$15.00
Service Reconnection Charge After Hours	\$113.00
Meter Reread Charge	\$15.00
Additional Trip Charge	\$15.00
Meter Test Charge	\$17.00
Return Check Charge	\$15.00

Meter Connection Charges

5/8 x 3/4 Inch Water Tap On  
All Larger Meters

\$1,497.00  
Actual Cost

## Service List for 2025-00353

\* Kenneth Fisher  
Laurel County Water District #2  
3910 South Laurel Road  
London, KY 40744

\* Sam Reid  
312 N. Jackson Street  
Perryville, KY 40468

\* Laurel County Water District #2  
3910 South Laurel Road  
London, KY 40744

\* Wanda Smith  
Office Manager/Accountant  
Laurel County Water District #2  
3910 South Laurel Road  
London, KY 40744