COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O.R.D.E.R.

On November 19, 2025,[1] Laurel County Water District No. 2 (Laurel District No. 2) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. Laurel District No. 2's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2021-00385.[2] 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.[3] Laurel District No. 2 responded to four requests for information.[4] Laurel District No. 2's Response to Commission Staff's Third Request for Information (Staff's Third

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[1] 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 was deemed filed on November 19, 2025.

[2] *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).

[3] Order (Ky. PSC Mar. 27, 2026).

[4] Laurel District No. 2's Response to Staff's 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's Fourth Request for Information (Staff's Fourth Request) (filed Apr. 7, 2026).

Request) was due on March 11, 2026, but was filed on March 12, 2026,[5] along with a request for leave for the late filing.[6]

In its application, Laurel District No. 2 requested rates that would increase its base rate revenue by $486,926, or 15.75 percent.[7] To comply with the requirements of 807 KAR 5:076, Section 9,[8] Laurel District No. 2 used the calendar year ended December 31, 2024, as the basis for its application.

Commission Staff (Staff) issued its report (Staff Report) on April 28, 2026,[9] summarizing its findings and recommendations regarding Laurel District No. 2's requested rate adjustment. In its report, Staff found that Laurel District No. 2's pro forma operations support a total revenue requirement of $4,162,990 and that a $748,780 revenue increase, or 24.22 percent, to pro forma present rate revenues was necessary to generate the Overall Revenue Requirement.[10] In the absence of a cost of service study (COSS), Staff allocated its recommended revenue increase evenly across all customer classes to calculate its recommended water rates.[11]

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[5] Laurel District No. 2's Response to Staff's Third Request.

[6] Laurel District No. 2's Request to Late-File Responses (filed Mar. 12, 2026).

[7] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Revenue Requirements Table.

[8] 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.

[9] Staff Report (filed Apr. 28, 2026).

[10] Staff Report at 5.

[11] Staff Report at 5.

On May 12, 2026, Laurel District No. 2 submitted its response to the Staff Report.[12] In its response, Laurel District No. 2 provided four written comments.[13] First, Laurel District No. 2 stated that it accepts the revenue requirement recommended in the Staff Report for the purposes of this proceeding, provided it did not change.[14] Second, Laurel District No. 2 stated that it disagrees with the removal of labor costs related to non-recurring charges, and requested that the Commission establish non-recurring charges at the level supported by the cost justification sheets provided in the case.[15] Third, Laurel District No. 2 stated that it disagrees with the recommended decrease for the Service Reconnection Fee and with the decrease to the Meter Test Charge, contending that the recommended amounts would not sufficiently recover the expenses incurred by the district.[16] Lastly, Laurel District No. 2 stated that it does not request a hearing or an informal conference in this matter, but it retains the right to contest or dispute any of the Staff Report findings and recommendations in future proceedings.[17] Laurel District No. 2's acceptance of the Staff Report resulted in recommended rates in excess of 110 percent of the requested amount.[18] On June 15, 2026, the Commission issued an Order in which it directed Laurel District No. 2 to notify its customers of the recommended

[12] Laurel District No. 2's Response to Staff Report (Laurel District No. 2's Response) (filed May 12, 2026).

[13] Laurel District No. 2's Response at 2, Item 1 and 4.

[14] Laurel District No. 2's Response at 1, Item 1.

[15] Laurel District No. 2's Response at 1, Item 2.

[16] Laurel District No. 2's Response at 2, Item 3.

[17] Laurel District No. 2's Response at 2, Item 4.

[18] 807 KAR 5:076, Section 11(3)(f).

implementation of rates calculated in the Staff Report by publishing notice of the increase in a newspaper of general circulation in its territory or by placing an insert in bills rendered to its customers.[19] On July 1, 2026, Laurel District No. 2 filed an affidavit of newspaper publication into the case record.[20]

The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."[21] 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

Laurel District No. 2 is a water district 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.[22]

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[19] Order (Ky. PSC June 15, 2026) at 3.

[20] Laurel District No. 2's Affidavit of Newspaper Publication (filed July 1, 2026).

[21] *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).

[22] *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.

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2024 Annual Report, Laurel District No. 2 reported an unaccounted-for water loss of 8.8866 percent.[23] In its 2023 Annual Report, Laurel District No. 2 reported an unaccounted for water loss of 11.4280 percent.[24] In its 2022 Annual Report, Laurel District No. 2 reported an unaccounted for water loss of 17.0286 percent.[25] Laurel District No. 2 produces 100 percent[26] of its water.[27] 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, although the 2024 total annual cost of unaccounted-for water loss above 15 percent is $0:

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

[23] 2024 Annual Report at 57.

[24] *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.*

[25] *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.*

[26] Staff noted, in the 2024 Annual Report on page 50, Laurel District No. 2 reported a purchased water expense of $46 while also on page 57 producing 100% of its water needs.

[27] 2024 Annual Report at 54 and 57.

TEST PERIOD

The calendar year ended December 31, 2024, was used as the test year to determine the reasonableness of Laurel District No. 2's proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarized[28] Laurel District No. 2's pro forma income statement as follows:

Description	Test Year	Total Adjustments	Staff's Pro Forma
Total Operating Revenues	$3,257,492	$ 18,635	$ 3,276,127
Total Operating Expenses ( )	(3,130,270)	(356,730)	(3,487,000)
Net Operating Income	127,222	(338,095)	(210,873)
Non Utility Income	16,331	-	16,331
Interest Income	121,752	-	121,752
Income Available to Service Debt	$ 265,305	$ (338,095)	$ (72,790)

REVIEW AND MODIFICATION OF STAFF'S RECOMMENDATIONS

Laurel District No. 2 proposed adjustments to its revenues and expenses to reflect current and expected operating conditions and proposed an across-the-board approach to applying the revenue increase. In the Staff Report, additional adjustments were recommended. The Commission accepts the recommendations contained in the Staff Report with three modifications that are discussed in more detail below. First, the Commission modified Staff's adjustment to nonrecurring charges, based on information supplied by Laurel District No. 2's Response to the Staff Report. Second, since the Staff Report was issued, the contribution rate for the County Employee Retirement System

[28] Staff Report at 10.

(CERS) was reduced from 19.71 percent to 18.62 percent,[29] resulting in a decrease to the Revenue Requirement of $6,961. Third, the Commission modified the Staff Report's recommended rates based on the change to the revenue requirement. The adjustments resulted in a net decrease of $41,266 to the revenue required from water sales recommended in the Staff Report. The following is the Commission's complete pro forma operating statement:

[29] Kentucky Public Pensions Authority, GASB Contribution Rates (https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx).

Description	Test Year	Total Adjustments	Staff's Pro Forma	Commission Adjustments	Commission Approved Pro Forma
Operating Revenues					
Residential Metered Sales	$2,174,947	$ 40,198	$ 2,215,145	$ -	$ 2,215,145
Commercial Metered Sales	586,546	-	586,546	-	586,546
Industrial Metered Sales	289,496	-	289,496	-	289,496
Other Revenues					
Miscellaneous Service Revenues	206,503	(21,563)	184,940	34,305	219,245
Total Operating Revenues	3,257,492	18,635	3,276,127	34,305	3,310,432
Operation and Maintenance		-			
Salaries and Wages - Employees	1,117,626	104,019			
		-	1,221,645	-	1,221,645
Salaries and Wages - Officers	30,000	-	30,000	-	30,000
Employee Benefits	403,483	(49,169)			
		3,249	357,563	-	357,563
Employee Pensions		49,169			
		178,961			
		(39,173)			
		21,894	210,851	(6,961)	203,890
Purchased Water	46	-	46	-	46
Purchased Power	206,981	-	206,981	-	206,981
Chemicals	100,110	-	100,110	-	100,110
Materials and Supplies	210,769	-	210,769	-	210,769
Contractual Services - Eng.	1,155	-	1,155	-	1,155
Accounting	12,900	-	12,900	-	12,900
Legal	4,007	-	4,007	-	4,007
Water Testing	29,754	-	29,754	-	29,754
Other	18,496	-	18,496	-	18,496
Rental Equipment	864	-	864	-	864
Transportation Expenses	62,370	-	62,370	-	62,370
Insurance - Gen Liab.	34,657	-	34,657	-	34,657
Insurance - Worker's Compensation	8,207	-	8,207	-	8,207
Bad Debt	22,370	-	22,370	-	22,370
Miscellaneous Expenses	88,334	(2,508)	85,826	-	85,826
Total	2,352,129	266,442	2,618,571	(6,961)	2,611,610
Amortization	5,849	3,112	8,961	-	8,961
Depreciation Expense	682,966	(718)			
		75,813	758,061	-	758,061
Taxes Other Than Income	89,326	12,081	101,407	-	101,407
Total Operating Expenses	3,130,270	356,730	3,487,000	(6,961)	3,480,039
Net Operating Income	127,222	(338,095)	(210,873)	41,266	(169,607)
Non Utility Income	16,331	-	16,331	-	16,331
Interest Income	121,752	-	121,752	-	121,752
Income Available to Service Debt	$ 265,305	$ (338,095)	$ (72,790)	41,266	$ (31,524)

Water Sales. Laurel District No. 2 provided a billing analysis listing water usage and water sales revenue for the 12-month test year, to calculate a normalized revenue amount based on water usage during the test year and using rates authorized in its current tariff.[30] Laurel District No. 2 proposed one adjustment,[31] an increase of $40,198 to match the test-year billing analysis to current rates. Staff reviewed the billing analysis and recommended the Commission accept Laurel District No. 2's proposed adjustment of $40,198 to Water Sales to normalize its water service revenues to the amounts reported in its billing analysis.[32]

The Commission finds that Laurel District No. 2's adjustment is reasonable and should be accepted. Laurel District No. 2's Metered Retail Sales should be increased by $40,198, because the adjustment reflects verifiable usage and revenue data that was evaluated and normalized using the information provided in the record.

Other Water Revenues. Laurel District No. 2 did not propose any adjustments to Other Water Revenues in its application. The table below provides the other water revenue amounts reported during the test year and the adjustment recommended in the Staff Report to decrease Miscellaneous Service Revenues by $21,563:[33]

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[30] Application, Attachment_12_LCWD___Rate_Study_25-353.xlsx.

[31] Application, Attachment_1_-_6_List_of_attachments.pdf.

[32] Staff Report at 10–11.

[33] Staff Report at 11–12.

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

The decrease in Miscellaneous Service Revenues of $21,563 is a calculation of nonrecurring charge occurrences provided by the utility,[34] multiplied by the Revised Charges recommended by Staff, and subtracted from the test-year income total, as shown in the table below:[35]

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
				$60,963	($21,563)	$39,400

In response to the Staff Report, Laurel District No. 2 disagreed with the recommended decrease to the Service Reconnection Fee and the decrease to the Meter Test Charge.[36] Laurel District No. 2 specifically stated that the Service Reconnection Fee and the Meter Test Charge require district personnel to make two trips each time the utility provides these services, which doubles the transportation cost for each nonrecurring charge.[37]

[34] 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.

[35] Staff Report at 12.

[36] Laurel District No. 2's Response to Staff Report, Item 3.

[37] Laurel District No. 2's Response to Staff Report, Item 3.

After consideration of Laurel District No. 2's response, the Commission finds it should not accept the Staff Report's recommendation to decrease the Service Reconnection Fee and the Meter Test Charge. Instead, a modification to the Staff Report's adjustment for nonrecurring charges should be made based on the information provided by Laurel District No. 2 in response to the Staff Report, to reflect the additional transportation cost. The first table below provides the modified adjustment to Other Water Revenue found to be reasonable by the Commission. The Commission's adjustment is an increase of $34,305 to nonrecurring charges, which nullifies the Staff Report adjustment and creates a total increase to nonrecurring charges of $12,742, as shown in the table below:

Description	Test Year	Staff Adjustments	Commission Adjustment	Total Adjustment	Pro Forma
Forfeited Discounts	$ 57,366	$ -	$ -	$ -	$ 57,366
Nonrecurring Charges	60,963	(21,563)	34,305	12,742	73,705
Other	88,174	-	-	-	88,174
Total	$ 206,503	$ (21,563)	$ 34,305	$ 12,742	$ 219,245

The Commission's adjustment calculates a pro forma nonrecurring charge amount of $73,705 as shown in the table below, in which the regular business hours field and office labor are removed, and the transportation expense is adjusted, based on all 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	$30.00	$57,175	$11,435	$68,610
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	$32.00	-	-	-
Return Check Charge	57	$ 13.00	$15.00	741	114	855
				$60,963	$12,742	$73,705

The Commission finds that the adjustment to increase Other Water Revenue by $34,305 is reasonable and should be accepted. The adjustment reflects the removal of labor expenses resulting from work performed during normal business hours, as such expenses are already recovered as regular wages, and thus should not also be recovered through nonrecurring charges.[38] Removing labor expenses that are already recovered in base rates allows for the marginal costs related to the nonrecurring service provided during normal business hours to be recovered through a special Nonrecurring Charge.

Laurel District No. 2 stated that the utility does not track specific nonrecurring charges,[39] but provided an estimated number of occurrences for its nonrecurring charges,[40] and a detailed ledger listing each individual occurrence during the 2024 test year.[41] The Commission finds that Laurel District No. 2 should begin tracking and maintaining a record of the number of occurrences for each nonrecurring charge in order to be more accurate in reporting its Other Water Revenue.

<u>Salaries and Wages - Employees</u>. In its application, Laurel District No. 2 reported $1,117,626 in Salaries and Wages – Employees and proposed two adjustments.[42] First,

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[38] 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).

[39] Laurel District No. 2's Response to Staff's First Request, Item 19.

[40] 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.

[41] Laurel District No. 2's Response to Staff's First Request, Item 19_GL_Service_Charges_-_Nonrecurring_Charges_2024.pdf.

[42] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

Laurel District No. 2 proposed an increase of $100,680 due to employee turnover and an additional employee hired.[43] Laurel District No. 2 provided the test year employee list, wage rate, and hours worked[44] along with the current wage rates and current employee list.[45] Laurel District No. 2 has four full-time salary employees, 16 full-time hourly, and two part-time hourly employees.[46] Laurel District No. 2 stated that one employee regularly works holidays and is paid for regular hours and holiday pay.[47] Staff normalized the pro forma regular hours for all full-time hourly employees to 2,080.[48] For the one employee who regularly works during the holidays, Staff used the actual hours because it is a standard occurrence, which Laurel District No. 2 considers full time. While Staff agreed with Laurel District No. 2's methodology, a different adjustment was calculated during review as detailed in the Staff Report.[49] Staff calculated a total Salaries and Wages – Employees of $1,221,645,[50] an increase of $104,019, as shown in the table below:

[43] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

[44] Application, Attachment_12_LCWD_Rate_Study_25-353.xlsx, Wages Tab.

[45] Application, Attachment_12_LCWD_Rate_Study_25-353.xlsx, Wages Tab.

[46] Application, Attachment_12_LCWD_Rate_Study_25-353.xlsx, Wages Tab.

[47] Laurel District No. 2's Response to Staff's Second Request, Item 3.

[48] Staff Report at 12–15.

[49] Staff Report at 12–15.

[50] Staff Report at 12–15.

Employee	Normalized Regular Hours	Overtime Hours	Vacation Hours	Pro Forma Wage Rate	Pro Forma Reg. Wages	Pro Forma Overtime Wages	Vacation Wages	Pro Forma 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
Total Salaries and Wages	43,381	2,082	790		$ 1,119,436	$ 80,292	$ 21,916	1,221,645
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								$ 3,339

The Staff Report recommended the Commission accept Staff's calculated increase of $104,019 to reflect the normalization of full-time employees' hours worked and actual part-time employees' hours worked at current wage rates.[51]

The Commission finds that Staff's adjustment is reasonable and should be accepted. Laurel District No. 2's Salaries and Wages – Employees should be increased by $3,339 because the adjustment is a known and measurable change to reflect the normalized test-year hours at current wages for current employees.

[51] Staff Report at 14.

Second, in the application, Laurel District No. 2 proposed a decrease of $16,994[52] due to the removal of labor expense for new tap installations performed in the test year.[53] 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 District No. 2's consultant, unaware that Laurel District No. 2 already recorded the expenses as part of the cost of the assets.[54] Staff reviewed Laurel District No. 2's General Ledger and confirmed that the labor costs were capitalized as a year-end adjustment.[55] Therefore, no additional adjustment to Depreciation Expense was 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.[56] Staff identified that the expenses were capitalized, so the proposed adjustment would double

[52] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

[53] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment C.

[54] Laurel District No. 2's Response to Staff's First Request, Item 15b.

[55]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 Instillations.

[56] USoA, Accounting Instruction 19 and 33.

the capitalization of expenses and was not included in Staff's adjustment to Salary and Wages – Employees.

The Staff Report recommended the Commission deny Laurel District No. 2's proposed decrease of $16,994 to Salaries and Wages – Employees and accept Staff's total adjustment of $104,019 for Salary and Wages – Employees, since the General Ledger identified that the labor expenses were already capitalized in accordance with the USoA guidelines.

The Commission finds that the Staff Report's recommended adjustment is reasonable and should be accepted and that Laurel District No. 2's proposed decrease of $16,994 should be rejected because the labor expenses were already capitalized in accordance with the USoA guidelines.

Salaries and Wages – Officers. Laurel District No. 2 reported a test-year amount of Salaries and Wages – Officers of $30,000.[57] Laurel District No. 2's Board of Commissioners (Board) has five members who were each paid $6,000 during the test year to total $30,000.[58] Laurel District No. 2 provided the Laurel County Fiscal Court minutes approving their appointments[59] and compensation.[60] Laurel District No. 2 provided new commissioner training records for Lisa Baker and Theresa Brewer; however, it stated it does not have any information on David Moore or Kenneth Finly's

[57] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

[58] $6,000 Annual Salary Per Commissioner x 5 Commissioners = $30,000.

[59] 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.

[60] Laurel District No. 2's Response to Staff's First Request, Item 11b, 11_b_Fiscal_Court_Commissioner_compenation.pdf.

new commissioner training records.[61] Staff determined both were hired before the statutorily[62] required training was enacted.[63] Laurel District No. 2 did not provide the new commissioner training certificate for Steven Cornn;[64] however, it did provide evidence of Steven Cornn's attendance.[65] Based on the amount of evidence provided, while Steven Cornn did not sign in, it appears that he did attend the required new water commissioner training. As a result, Staff included wages for Steven Cornn and proposed no adjustment. The Staff Report recommended the Commission accept Laurel District No. 2's test-year amount for Salary and Wages – Officers.

The Commission finds that Staff's factual conclusion and calculation are reasonable and should be accepted because it is known and measurable and supported by the information in the case record.

Employee Benefits. Laurel District No. 2 reported $403,483 in Employee Pension and Benefits during the test year.[66] Staff determined that separation of the medical and medical-related costs from retirement benefits was appropriate to reflect the different basis of adjustments and reclassified $49,169 to Employee Pensions. Laurel District

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[61] Laurel District No. 2's Response to Staff's Second Request, Item 6.

[62] KRS 74.020 (Amended 2010 Ky. Acts Ch. 18, sec. 1, effective July 15, 2010).

[63] Laurel District No. 2's Response to Staff's Second Request, Item 6.

[64] Staff researched the matter and despite the requirement that all attendees were to sign in and sign out for both July 20th and 21st 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.

[65] 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.

[66] 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.

No. 2 stated that it provides Medical and Life insurance to its employees, and the employees pay 100 percent of Dental insurance.[67] Laurel District No. 2 proposed one adjustment to Employee Benefits, a decrease of $1,697 due to a reduction in Health and Life insurance costs.[68] Staff recalculated the cost per employee based on the most recent invoice provided by Laurel District No. 2,[69] which resulted in a pro forma Health and Life insurance increase of $3,249, 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 Distrct's Adjustment ( )		1,697
Difference		$ 4,946

The Staff Report recommended the Commission accept Staff's adjustment to increase Employee Benefits by $3,249 to reflect the annualization of current insurance premiums.[70]

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[67] Laurel District No. 2's Response to Staff's First Request, Item 8.

[68] Application, Attachment_1_-_6_List_of_attachments.pdf, Reference D.

[69] 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.

[70] Staff Report at 18.

The Commission finds that Staff's adjustment is reasonable and should be accepted. Laurel District No 2's Employee Benefits should be increased by $3,249 because it reflects the annualization of current insurance premiums based on invoices contained in the record.

Employee Pensions. In the application, Laurel District No. 2 proposed to decrease Employee Pensions and Benefits by $10,940[71] to reflect the change in salaries and current contribution rates.[72] As discussed above, Staff reclassified $49,169 from Employee Pension and Benefits to Employee Pensions. Laurel District No. 2 participates in the CERS.[73] Instead of accepting the proposed adjustment, Staff made three adjustments. First, Staff recommended an increase of $178,961 for Pension and Other Post Employment Benefits (OPEB) related to Governmental Accounting Standards Board (GASB) 68 and GASB 75.[74] Second, Staff recommended a decrease of $39,173 for the reduction in the CERS contribution rate from the test year.[75] Third, Staff recommended an increase of $21,894 to account for the increase in wages discussed above.[76] Staff's adjustments resulted in a net increase of $161,682[77] as shown in the following table:

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71 Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment, Adjustment E.

72 Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment, Adjustment E.

73 Application, Attachment 12, Attachment_12_LCWD_Rate_Study_25-353.xlsx, Wages Tab, Cells O3 thru P7.

74 Staff Report at 18.

75 Staff Report at 18.

76 Staff Report at 12 and 13.

77 Staff Report at 19.

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	$ 49,169	210,851
Reclassified Test Year Employee Pensions ( )		(49,169)
Total Increase		161,682
Laurel District No. 2's Proposed Adjustment ( )		10,940
Difference		$ 172,622

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

The Staff Report recommended the Commission accept Staff's net increase of $161,682 to Employee Pensions because the amounts are a known and measurable change based on the proper recording for GASB 68 and 75 and reflect current Salaries and Wages at current contribution levels.[78]

The Commission finds the Staff Report's recommended adjustments should be modified since the contribution rate for CERS was reduced from 19.71 percent to 18.62 percent effective July 1, 2026. Accounting for the current contribution percentage means Laurel District No. 2's CERS contribution should increase by $154,721, which is $6,961 less than the Staff Report's adjustment as shown in the following table.

[78] Staff Report at 19.

Description	Commission Adjustment
Wages	$ 1,169,773
Contribution Rate	17.43%
Total Contributions	203,890
Reclassified Test Year Employee Pensions ( )	(49,169)
Total Increase	154,721
Staff's Adjustment ( )	(161,682)
Revenue Requirement Increase	$ (6,961)

The adjustment results in a decrease to the Revenue Requirement of $6,961 and is a known and measurable change based upon Employee Salaries and the current CERS contribution rate, is reasonable and should be accepted.

Materials and Supplies. In its application, Laurel District No. 2 proposed a decrease to Materials and Supplies of $39,653,[79] to account for the removal of labor used to install the new meters.[80] Laurel District No. 2 installed 46 new taps[81] and collected $56,647 during the test year.[82]

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	46		$ 56,647

[79] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment, Adjustment E.

[80] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment, Reference Adjustment C.

[81] Laurel District No. 2's Response to Staff's First Request, Item 15a.

[82] Laurel District No. 2's Response to Staff's First Request, Item 19, 19_GL_Tap_Fees_2024.pdf.

Laurel District No. 2 initially proposed an adjustment to decrease the capitalized material expenses associated with the new tap installation, but it did not propose a corresponding adjustment to Depreciation Expense, to account for the capitalization of the materials.[83] 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.[84] 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 are not included in Materials and Supplies Expense.[85] Therefore, no adjustment is required to account for the capitalization of tap fee materials' expense. The USoA requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.[86]

The Staff Report recommended the Commission deny Laurel District No. 2's proposed decrease since the General Ledger identified that the Materials and Supplies Expenses were already capitalized.[87]

The Commission finds that the Staff Report's recommended adjustment is reasonable and should be accepted because the information in the case record shows

[83] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References Adjustment C.

[84] Laurel District No. 2's Response to Staff's First Request, Item 15c.

[85] 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.

[86] USoA, Accounting Instruction 19 and 33.

[87] Staff Report at 21.

that the materials and supplies expenses were already capitalized in accordance with the USoA guidelines.

Miscellaneous Expense. In its application, Laurel District No. 2 did not propose any adjustments to Miscellaneous Expense.[88] Staff reviewed Laurel District No. 2's General Ledger and identified expenses totaling $2,508, that Staff recommended for removal from the revenue requirement.[89] Staff removed 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 table below:

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

The Staff Report recommended the Commission accept Staff's decrease of $2,508 to Miscellaneous Expenses to reflect the removal of expenses not directly related to Laurel District No. 2's ability to provide service to its customers.[90]

[88] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

[89] Laurel District No. 2's Response to Staff's First Request, Item 3a, 3_a_2024_General_ Ledger_Analysis.xlsx.

[90] Staff Report at 22.

The Commission finds that the Staff Report's recommended adjustment is reasonable and should be accepted. Laurel District No. 2's Miscellaneous Expense should be decreased by $2,508 because the amounts are not directly related to Laurel District No. 2's duty to provide service to its customers supported by known and measurable information in the record.

Amortization – Rate Case Expense. In its application, Laurel District No. 2 proposed an adjustment to increase Amortization Expense by $3,112.[91] This increase is to reflect the amortization of current rate case expense over three years.[92] Laurel District No. 2 contracted with Kentucky Rural Water Association (KRWA) to assist with the application.[93] KRWA provided an estimated total cost not to exceed the $9,335 quote for consulting services to prepare the rate case.[94] Laurel District No. 2 then proposed to amortize $9,335 over three years for an annual amount of $3,112.[95] Staff agreed with the recovery of the costs over three years.[96]

Descirption	Amount
Estimated Rate Case Cost	$ 9,335
Amortization Years	3
Annual Rate Case Expense	$ 3,112

[91] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

[92] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

[93] Laurel District No. 2's Response to Staff's First Request, Item 12a.

[94] Laurel District No. 2's Response to Staff's First Request, Item 12d, 12_d_KRWA_Proposed_Rate_Study_2025.pdf.

[95] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

[96] Staff Report at 23.

Staff recommended 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.

The Commission finds that Laurel District No. 2's adjustment is reasonable and should be accepted. Laurel District No. 2's Amortization Expense should be increased by $3,112 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 Laurel District No. 2's rate case expense is reasonable and should be accepted, as this is the amount of time, barring unusual circumstances, that Laurel District No. 2 should, or is expected, to file a new rate case.[97]

Depreciation Expense. In its application, Laurel District No. 2 proposed two adjustments to its Depreciation Expense.[98] First, it proposed a $718 decrease[99] to reflect two assets that were taken out of service and removed from the 2024 depreciation

[97] 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).

[98] 7 Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations.

[99] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

schedule.[100] Staff reviewed the asset disposition[101] and depreciation reconciliation[102] and agreed 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 recommended the Commission accept Laurel District No. 2's adjustment because the assets were disposed of and therefore should not be included for future years.[103]

The Commission finds Laurel District No. 2's adjustment is reasonable and should be accepted because it accurately reflects the disposal of assets that should not be included for future years.

Second, Laurel District No. 2 proposed an increase of $76,481[104] 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".[105] 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

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[100] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment G.

[101] Laurel District No. 2's Response to Staff's First Request, Item 13, 13_Asset Disposition_12_31_24.pdf.

[102] Laurel District No. 2's 13_2024_Depreciation_Reconcilation.pdf. Response to Staff's First Request, Item 13, 13_2024_Depreciation_Reconcilation.pdf.

[103] Staff Report at 23 and 24.

[104] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

[105] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference Adjustment H.

its application, Laurel District No. 2 provided a depreciation schedule of all fixed assets in use.[106] Staff reviewed and recalculated the depreciation schedules using the NARUC study's midpoint useful life ranges. Staff calculated a $75,813 increase to Depreciation Expense which is $688 less than Laurel District No. 2's proposed adjustment, as shown in the following table:[107]

Asset Class	NARUC Recommended Service Lives	Test Year Depreciation	Depreciation Adjustment	Pro Forma 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		$ 682,248	75,813	$ 758,061
Laurel County District's Proposed Adjustment ( )			(76,481)	
Difference			$ (668)	

The Staff Report recommended the Commission accept Staff's $75,813 increase to Depreciation Expense, which is $668 less than Laurel District No. 2's proposed adjustment, as it is known and measurable and reflects the adjusted lives to those recommended in the NARUC study.

The Commission finds that the Staff Report's adjustment is reasonable and should be accepted. Laurel District No. 2's Depreciation Expense should be increased by

[106] Application, Attachment_7_LCWD_2_Depreciation_Schedule_2024.xls.

[107] Staff Report at 25.

$75,813 because the known and measurable change is a direct result of aligning Laurel District No. 2's capital asset's useful lives with the NARUC Study's recommended useful lives.

Taxes Other Than Income. In its application, Laurel District No. 2 proposed an adjustment to increase Taxes Other Than Income by $6,169[108] to reflect the increase in payroll taxes as a result of increased wages.[109] 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 - Officers of $30,000. Staff calculated an additional increase of $12,081 in payroll taxes was needed as shown in table below:[110]

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	$ 5,912

[108] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Adjustment I.

[109] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, References, Adjustment I.

[110] Staff Report at 26.

The Staff Report recommended the Commission accept Staff's calculated increase to Taxes Other Than Income, because it is a known and measurable change that is a direct result of changes to Salaries and Wages.[111]

The Commission finds that the Staff Report's adjustment is reasonable and should be accepted. Laurel District No. 2's Taxes Other Than Income should be increased by $12,081 because the amounts are supported by known and measurable information in the record.

SUMMARY OF ADJUSTMENTS

Based upon the Commission's findings discussed above, the following table summarizes Laurel District No. 2's adjusted pro forma:

Description	Staff's Pro Forma	Commission Adjustments	Commission Approved Pro
Total Operating Revenues	$ 3,276,127	$ 34,305	$ 3,310,432
Total Operating Expenses ( )	(3,487,000)	6,961	(3,480,039)
Net Operating Income	(210,873)	41,266	(169,607)
Non Utility Income	16,331	-	16,331
Interest Income	121,752	-	121,752
Income Available to Service Debt	$ (72,790)	$ 41,266	$ (31,524)

REVENUE REQUIREMENT

Laurel District No. 2 proposed using the Debt Service Coverage Method in its application.[112] 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

[111] Staff Report at 26.

[112] Application, Attachment_12_LCWD_Rate_Study_25-353.xlsx, Revenue Requirements Tab.

expenses; (2) depreciation expense, a non-cash item, to provide working capital;[113] (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.[114]

Description	Staff's Pro Forma	Commission Approved Pro Forma
Pro Forma Operating Expenses	$ 3,487,000	$ 3,480,039
Average Annual Principal and Interest Payments	563,325	563,325
Additional Working Capital at 20%	112,665	112,665
Total Revenue Requirement	4,162,990	4,156,029
Other Revenue ( )	(184,940)	(219,245)
Non Utility Income ( )	(16,331)	(16,331)
Interest Income ( )	(121,752)	(121,752)
Revenue Required From Water Sales	3,839,967	3,798,701
Revenue from Sales at Present Rates ( )	(3,091,187)	$ (3,091,187)
Required Revenue Increase / (Decrease)	$ 748,780	$ 707,514
Percentage Increase / (Decrease)	24.22%	22.89%

[113] 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).

[114] 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.

Average Annual Principal and Interest Payments and Additional Working Capital

At the time of Staff's review, Laurel District No. 2 had two loans from the Kentucky Infrastructure Authority (KIA),[115] one loan from the Kentucky Rural Water Finance Corporation (KRWFC),[116] and four Waterworks Revenue Bonds to be purchased by the US. Department of Agriculture's Rural Development (RD).[117] Laurel District No. 2 requested recovery of the average annual principal and interest on its indebtedness in the amount $563,325[118] based on a five-year average of the annual principal, interest, and fee payments for the years 2026 through 2030.[119] Staff reviewed the provided debt

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[115] Case 1995-00551, *In the Matter of the Application of Laurel County Water District #2 for a Certificate of Public Convenience and Necessity to Construct Water System Improvements and Extensions and for Approval of Financing.* (Ky. PSC Feb. 20,1996); Case 2019-00221, *Application of Laurel County Water District #2 For the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to The Provisions of KRS 278.020, KRS 278.300, and 807 KAR 5:001* (Ky. PSC Aug. 23, 2019).

[116] Case 2020-00157, *Electronic Application of the Laurel County Water District No. 2 To Issue Securities in the Approximate Principal Amount of $6,105,000 for the Purpose of Refunding Certain Outstanding Obligations of the District Pursuant to The Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Jun. 23, 2020).

[117] Case No. 2010-00126, *Application of Laurel County Water District No. 2 of Laurel County, Kentucky For A Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Apr. 20, 2010); 2017-00397 *Application of Laurel County Water District No. 2 for a Certificate of Public Convenience and Necessity to Construct and Finance a Project Pursuant to KRS 278.023* (Ky. PSC Oct. 26, 2017); 2020-00079, *Electronic Application of the Laurel County Water District No. 2 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. 25, 2021).*

[118] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference J.

[119] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Table B, Debt Service Schedule.

schedule[120] and amortization schedules[121] and agreed with the methodology and amount Laurel District No. 2 proposed.[122]

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.[123] Following the Commission's historic practice of including additional working capital, Staff agreed with Laurel District No. 2's proposed methodology and amount.[124]

	2026		2027		2028		2029		2030		
Loan	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
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	$ 297,531	$ 273,541	$ 296,704	$ 263,609	$ 309,275	$ 253,352	$ 317,346	$ 242,701	$ 330,918	$ 231,648	2,816,624
Divided by 5 years											5
Average Annual Principal and Interest Payments											$ 563,325
Additional Working Capital at 20%											$ 112,665

Staff recommended 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,[125] because

[120] Application, Attachment_12_LCWD_Rate_Study_25-353.xlsx, Debt Service Tab.

[121] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference J.

[122] Staff Report at 28.

[123] Application, Attachment_1_-_6_List_of_attachments.pdf, Attachment 4, Schedule of Adjusted Operations, Reference K.

[124] Staff Report at 28.

[125] Staff Report at 30.

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.

The Commission finds that using the DSC method is appropriate and that $563,325 for average annual principal, as well as interest and fee payments for debt obligations, and $112,655 for the additional working capital is a known and measurable amount. The Commission finds the amounts to be reasonable and accepts inclusion of the amounts in the revenue requirement.

RATE DESIGN

Laurel District No. 2 proposed the 15.75 percent rate increase be allocated evenly across the board for all its water customers.[126] Laurel District No. 2 stated that it did not file a COSS in its application.[127] Laurel District No. 2 stated that it did consider filing a COSS, but because there were no material changes to its operations, a COSS would provide limited benefits to the district and the current application.[128] 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.[129]

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[126] Application, Attachment_12_LCWD__Rate_Study_25-353.xlsx, Tab Revenue Requirements.

[127] Laurel District No. 2's Response to Staff's First Request, Item 17a.

[128] Laurel District No. 2's Response to Staff's First Request, Item 17a and 17b.

[129] 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).

Accordingly, the Commission approved the allocation to Laurel District No. 2's monthly retail water service rates of a $707,514 revenue increase across the board. The rates set forth in Appendix B to this Order are based upon the revised pro forma revenue requirement and will produce sufficient revenues from water sales to recover the $3,798,701 revenue required from rates, an approximate 22.89 percent increase. The rate adjustment will increase the monthly water bill for a typical residential customer using approximately 4,000[130] gallons per month from $32.58 to $40.04, an increase of $7.46, or approximately 22.90 percent.

The Commission finds that the evidence provided in the record and the analysis showing the revised revenue requirement and allocation methodology recommended by Staff are fair, just and reasonable and should be accepted.

Nonrecurring Charges and Meter Connection Charges. The Commission finds that the Staff Report is consistent with recent Commission decisions, that labor expenses resulting from work performed during normal business hours should not be recovered through nonrecurring charges.[131] The Commission requires that charges be directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. District personnel are currently paid during normal

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[130] Application, Attachment_12_LCWD__Rate_Study_25-353.xlsx, Tab, Bills.

[131] Case No. 2025-00396, *Electronic Application of Garrard County Water Association for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jun. 9, 2026); Case No. 2025-00293, *Electronic Application of Meade County Water District for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 10, 2026); Case No. 2025-00226, *Electronic Application of Cumberland County Water District for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 23, 2025); and Case No. 2025-00192, *Electronic Application of Farmdale Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 29, 2026).

business hours, and their salaries and wages are an expense recovered in rates, thus there is no additional employee compensation nominal expense incurred to provide a nonrecurring charge service provided during regular business hours. Laurel District No. 2 provided updated cost justification information, including estimated labor expenses, for the Nonrecurring Charges shown in Appendix A.[132] In Case No. 2021-00385, the Commission previously removed labor expenses from Laurel District No. 2's Nonrecurring Charges.[133] Staff used the same practice in this case and removed labor expenses as outlined in the table below. The breakdown of costs for each nonrecurring charge and any Staff adjustment can be found in Appendix A to this Order. The Commission finds that a modification to the Staff Report's recommendation for nonrecurring charges was necessary as discussed in detail earlier in this Order. The Commission finds that the Staff Report's recommendation to remove labor expenses from nonrecurring charges and the revised nonrecurring charges as described in Appendix A is reasonable because only the incremental cost related to the service should be recovered for service provided during normal business hours.

Nonrecurring Charge	Current Charge	Revised Charge
Service Reconnection Charge	$25.00	$30.00
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	$32.00
Return Check Charge	$13.00	$15.00

[132] Laurel District No. 2's Response to Staff's First Request, Item 20.

[133] Case No. 2021-00385, *Electronic Application of Laurel County Water District No. 2 for an Alternative Rate Adjustment* (Ky. PSC Nov. 1, 2022), final Order at 7-9.

Additionally, Laurel District No. 2 provided an updated cost justification sheet for its 3/4-inch Meter Connection.[134] Staff reviewed the information provided by Laurel District No. 2 and recommended 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.[135]

Description	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

The Commission finds that the recommendation to increase the Meter Connection Charges as shown above to reflect the current expenses incurred to install new taps is reasonable to prevent an under recovery for tap fees.

SUMMARY AND FINDINGS

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Staff Report, as amended by the above-mentioned modifications, are supported by the evidence of record and are reasonable. Applying the DSC method to Laurel District No. 2's pro forma operations, results in an Overall Revenue Requirement of $4,262,990 and indicate a $707,514 revenue increase, or 22.89 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

Furthermore, although Laurel District No. 2 filed its Response to Staff's Third Request for Information after the requested deadline, the Commission accepts the late filing. However, the Commission cautions Laurel District No. 2 that future late filings may

[134] Laurel District No. 2's Response to Staff's First Request, Item 22.

[135] Laurel District No. 2's Response to Staff's First Request, Item 22.

not be accepted and instructs Laurel District No. 2 that, if a similar situation arises in the future, it file a formal, written motion requesting Commission permission for an extension of time to file its responses.

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 Laurel District No. 2 are denied.

3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Laurel District No. 2 on or after the date of this Order.

4. Laurel District No. 2's Response to Staff's Third Request for Information is accepted for filing into the case record.

5. Laurel District No. 2 shall begin tracking and maintaining a record of the number of occurrences for each nonrecurring charge.

6. Within 20 days of the date of service of this Order, Laurel District No. 2 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.

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

Entered on this 20th day of August, 2026.

PUBLIC SERVICE COMMISSION

Angie Hatton
Chair

Mary Pat Regan
Vice Chair

Andrew W. Wood
Commissioner

Barry L. Mayfield
Commissioner

ATTEST:

Justin McNeil RP

Justin McNeil
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00353 DATED AUG 20 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	$30.00	$30.00
LWD contribution ($12.90 at 1 hr.)	$12.90	
Total Revised Charge	$66.90	$30.00
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	$30.00	$15.00
LWD contribution ($12.90 at 2 hr.)	$25.80	$25.80
Total Revised Charge	$127.80	$113.00
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	$15.00	$15.00
LWD contribution	$6.45	
Total Revised Charge	$33.45	$15.00

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	$15.00	$15.00
LWD contribution	$6.45	
Total Revised Charge	$33.45	$15.00
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	$30.00	$30.00
LWD contribution	$25.80	
Total Revised Charge	$105.60	$32.00
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	$15.00	$15.00
Bank Fee		
Total Revised Charge	$33.45	$15.00
Current Rate	$13.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00353 DATED AUG 20 2026

The following rates and charges are prescribed 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 as those in effect under the authority of the Commission prior to the effective date of the Order.

Monthly Water Rates

<u>5/8-Inch Meter</u>			
First	1,000 Gallons	$18.44	Minimum Bill
Next	99,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon
<u>1-Inch Meter</u>			
First	5,000 Gallons	$47.24	Minimum Bill
Next	95,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon
<u>1 1/2-Inch Meter</u>			
First	10,000 Gallons	$83.25	Minimum Bill
Next	90,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon
<u>2-Inch Meter</u>			
First	20,000 Gallons	$155.26	Minimum Bill
Next	80,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon
<u>3-Inch Meter</u>			
First	30,000 Gallons	$227.27	Minimum Bill
Next	70,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon
<u>4-Inch Meter</u>			
First	50,000 Gallons	$371.30	Minimum Bill
Next	50,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon

Campground Heights 1-8

First	4,000 Gallons	$63.73	Minimum Bill
Next	96,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon

Campground Heights 9

First	5,000 Gallons	$47.22	Minimum Bill
Next	95,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon

Man Enterprises LLC

First	22,000 Gallons	$335.58	Minimum Bill
Next	78,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon

KTR LLC

First	49,000 Gallons	$743.33	Minimum Bill
Next	51,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon

Chestnut Green

First	26,000 Gallons	$395.99	Minimum Bill
Next	74,000 Gallons	0.00720	Per Gallon
Over	100,000 Gallons	0.00643	Per Gallon

Corbin Manor Apt.

First	200,000 Gallons	$1,374.43	Minimum Bill
Over	200,000 Gallons	0.00643	Per Gallon

Nonrecurring Charges

Service Reconnection Charge	$30.00
Service Reconnection Charge After Hours	$113.00
Meter Reread Charge	$15.00
Additional Trip Charge	$15.00
Meter Test Charge	$32.00
Return Check Charge	$15.00

Meter Connection Charges

5/8 x 3/4 Inch Water Tap On	$1,497.00
All Larger Meters	Actual Cost

Service List for Case 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

* Denotes served by Email