

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF     ) CASE NO.  
MCKINNEY WATER DISTRICT                     ) 2015-00331

ORDER

McKinney Water District (“McKinney”) has applied to adjust its water service rates. By this Order, the Commission approves water service rates that will produce additional annual water service revenues in the amount of \$50,044, a 6.22 percent increase to pro forma present rate revenues of \$804,059. A typical residential bill will increase from \$36.52 to \$38.80 per month, an increase of \$2.28, or 6.24 percent.<sup>1</sup>

McKinney tendered its application pursuant to 807 KAR 5:076 on October 2, 2015. The application was considered filed on October 20, 2015, when McKinney cured all filing deficiencies. In its application, McKinney requested rates that would increase annual water sales revenues by \$64,514, an 8.03 percent increase to pro forma present rate water sales revenues as determined by McKinney in the amount of \$803,380.

On November 2, 2015, the Commission issued a procedural Order to ensure the orderly review of McKinney’s application. Pursuant to the procedural Order, Commission Staff (“Staff”) issued a report on February 2, 2016, containing its findings regarding McKinney’s requested rate adjustment. As summarized in its report, by applying methods and practices that are generally accepted by the Commission, Staff found that McKinney’s adjusted test-year operations support a \$50,045, or 6.22 percent,

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<sup>1</sup> A typical residential customer is assumed to purchase 4,000 gallons of water per month through a 5/8-inch x 3/4-inch meter.

increase to pro forma present rate revenues in the amount of \$804,059. Staff also found that McKinney should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

On February 12, 2016, McKinney filed responses to Staff's report wherein it accepted Staff's findings and requested that no informal conference or hearing be held.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. McKinney was organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 1,852 customers in Casey and Lincoln counties, Kentucky.<sup>2</sup>

2. The calendar year ending December 31, 2014, should be used as the test year to determine the reasonableness of McKinney's existing and proposed water rates.

3. Based upon pro forma test-year operations, McKinney's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable changes, are \$831,353 and \$794,744, respectively.<sup>3</sup>

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<sup>2</sup> Staff Report at 1.

<sup>3</sup> *Id.* at 4. The revenues and expenses listed below include all regulated and non-regulated operations that should be accounted for when calculating McKinney's income that is available to service its debt.

Water Sales Revenue	\$	804,059
Other Operating Revenue		25,586
Interest Income		1,708
<b>Total Revenue</b>	<b>\$</b>	<b>831,353</b>
Operation and Maintenance Expenses	\$	699,985
Taxes Other Than Income		79,932
Depreciation		14,827
<b>Total Expenses</b>	<b>\$</b>	<b>794,744</b>

4. McKinney currently has outstanding bond issuances payable to the United States Department of Agriculture Rural Development ("RD"). The three-year average principal and interest payments for the years 2015 through 2017 on the RD bonds is \$72,210.<sup>4</sup>

5. The Commission has historically used a Debt Service Coverage ("DSC") method to calculate the revenue requirements of water districts with long-term debt.

6. Application of the Commission's DSC method to McKinney's pro forma operations results in an overall revenue requirement of \$881,397. Revenue of \$854,103 from water service rates is necessary to generate the overall requirement.<sup>5</sup>

7. The rates set forth in Appendix A to this Order will produce the required revenues, are fair, just, and reasonable, and should be approved for service rendered on and after the date of this Order.

8. The water service rates requested by McKinney will produce more revenues than required and should be denied.

9. During the test year, McKinney used service lives for various water assets that are at variance with those found in a survey by the National Association of Regulatory Utility Commissioners ("NARUC Survey") of "average service lives currently being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice."<sup>6</sup>

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<sup>4</sup> *Id.* at 14.

<sup>5</sup> *Id.*

<sup>6</sup> National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

10. The Commission has previously used the NARUC Survey to establish the services lives of water assets when there is no evidence in the record that supports alternative lives.<sup>7</sup>

11. The record contains no evidence that the service lives that McKinney uses for the asset account groups listed in Appendix B to this Order should be at variance with the NARUC Survey.

12. McKinney's assignment of service lives for these asset groups is not reasonable and should be revised to conform to the NARUC Survey for ratemaking and accounting purposes in all future reporting periods.

IT IS THEREFORE ORDERED that:

1. The water service rates requested by McKinney are denied.
2. The water service rates set forth in Appendix A to this Order are approved for services rendered by McKinney on and after the date of this Order.
3. Within 20 days of the date of this Order, McKinney shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.
4. In all future reporting periods, McKinney shall use the "PSC Approved Service Life" set forth in Appendix B to this Order for the listed asset groups when calculating and reporting depreciation for all reporting periods after the date of this Order. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in accounting estimate.

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<sup>7</sup> Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21 2007); and Case No. 2012-00278, *Application of Graves County Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Sept. 5, 2012).

By the Commission

ENTERED  
MAR 03 2016  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Acting Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2015-00331 DATED **MAR 03 2016**

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

Monthly Water Rates

5/8-Inch X 3/4-Inch Meter

First 1,000 Gallons	\$ 14.20 Minimum Bill
Next 2,000 Gallons	8.67 Per 1,000 Gallons
Next 7,000 Gallons	7.26 Per 1,000 Gallons
Over 10,000 Gallons	6.58 Per 1,000 Gallons

1-Inch Meter

First 5,000 Gallons	\$ 46.06 Minimum Bill
Next 5,000 Gallons	7.26 Per 1,000 Gallons
Over 10,000 Gallons	6.58 Per 1,000 Gallons

2-Inch Meter

First 20,000 Gallons	\$ 148.16 Minimum Bill
Over 20,000 Gallons	6.58 Per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
 COMMISSION IN CASE NO. 2015-00331 DATED **MAR 03 2016**

Modifications to the Service Lives  
 of Certain Assets of McKinney Utility Commission

NARUC Account Number	Type of Asset	NARUC Average Service Life	Previously Assigned Service Life/Lives	PSC Approved Service Life/Lives
324-7	Pumping Equipment	20	33	20
341	Structures and Improvements	35-40	33	35
342	Reservoirs and Tanks	30-60	33, 15, 20	33, 30
343	Transmission and Distribution Mains	50-75	50, 33, 35	50
390	Structures and Improvements	35-40	20	35
392	Transportation Equipment	7	5	7
394	Tools, Shop & Garage Equipment	15-20	10	15
397	Communications Equipment	10	10, 5	10

\*McKinney Water District  
2900 KY HWY 198  
Stanford, KY 40484