

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MCKINNEY	)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT	)	2025-00145
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 June 26, 2025, as amended by Order entered August 27, 2025, the attached report containing the recommendations of Commission Staff (Staff) regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's June 26, 2025 and August 27, 2025 Orders, McKinney Water District (McKinney District) is required to file written comments regarding the recommendations of Staff no later than 14 days from the date of service of this report. The Commission directs McKinney District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.

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

*AP*

DATED **OCT 30 2025**

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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COMMISSION STAFF'S REPORT  
ON MCKINNEY WATER DISTRICT

McKinney Water District (McKinney District) 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 1,877 residential customers and 32 commercial customers that reside in Casey and Lincoln counties, Kentucky.<sup>1</sup>

On June 10, 2025,<sup>2</sup> McKinney District 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> McKinney District used the calendar year ended December 31, 2024, as the basis for its application. McKinney District's last base rate increase, filed pursuant to the alternative rate filing procedure,

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<sup>1</sup> *Annual Report of McKinney District to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report) at 12 and 49.

<sup>2</sup> McKinney District tendered its application on May 30, 2025. By letter dated June 3, 2025, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on June 10, 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.

was in Case No. 2022-00400.<sup>4</sup> Since that matter, McKinney District has only adjusted its rates pursuant to Purchased Water Adjustments (PWA). To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated June 26, 2025. McKinney District responded to two requests for information from Commission Staff (Staff). McKinney District partially responded to Commission Staff's First Request for Information (Staff's First Request) on July 31, 2025<sup>5</sup> and filed the remainder of its responses on August 12, 2025.<sup>6</sup> McKinney District responded to Commission Staff's Second Request for Information (Staff's Second Request) on September 17, 2025.<sup>7</sup>

#### UNACCOUNTED-FOR WATER LOSS

Staff notes that McKinney District reported a water loss of 26.5335 percent, 27.1848 percent, and 26.1136 percent in its 2022, 2023, and 2024 Annual Reports, respectively.<sup>8</sup> Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2024 total annual cost of water loss to McKinney District is \$116,457 while the annual cost of water loss in excess of 15 percent is \$49,563.

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<sup>4</sup> See Case No. 2022-00400, *Electronic Application of McKinney Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 1, 2023).

<sup>5</sup> McKinney District's Response to Staff's First Request (filed July 31, 2025).

<sup>6</sup> McKinney District's Amended Response to Staff's First Request (filed Aug. 12, 2025).

<sup>7</sup> McKinney District's Response to Staff's Second Request (filed Sept. 17, 2025).

<sup>8</sup> *Annual Report of McKinney District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 57, *Annual Report of McKinney District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 57 and 2024 Annual Report at 57.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 433,513	\$ 12,449	\$ 445,962
Water Loss Percent	26.1136%	26.1136%	26.1136%
Total Water Loss	<u>\$ 113,206</u>	<u>\$ 3,251</u>	<u>\$ 116,457</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 433,513	\$ 12,449	\$ 445,962
Water Loss in Excess of 15%	11.1136%	11.1136%	11.1136%
Disallowed Water Loss	<u>\$ 48,179</u>	<u>\$ 1,384</u>	<u>\$ 49,563</u>

### DISCUSSION

Using its pro forma test-year operations, McKinney District determined that a base rate revenue increase of \$278,400 or 25.55 percent, was necessary to achieve the revenue requirement as shown in the table below.<sup>9</sup> McKinney District used the Debt Service Coverage (DSC) method to calculate its revenue requirement.

Description	McKinney Water District
Pro Forma Operating Expenses	\$ 1,098,137
Average Annual Principal and Interest Payments	270,808
Additional Working Capital at 20%	54,162
Interest on Customer Deposits	5,378
Total Revenue Requirement	<u>1,428,485</u>
Other Revenue ( )	(52,699)
Interest Income ( )	(7,933)
Revenue Required From Water Sales	<u>1,367,853</u>
Revenue from Sales at Present Rates ( )	(1,089,452)
Required Revenue Increase / (Decrease)	<u>\$ 278,400</u>
Percentage Increase / (Decrease)	<u>25.55%</u>

<sup>9</sup> Application, Exhibit 3, Schedule B, Revenue Requirement Calculation.

To determine the reasonableness of the rates requested by McKinney District, Staff performed a limited review of McKinney District'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>10</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. Vinay Raj Raju reviewed the calculation of McKinney District's Overall Revenue Requirement, and Elizabeth Stefanski reviewed McKinney District's reported revenues and rate design.

#### SUMMARY OF FINDINGS

Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, as generally accepted by the Commission, Staff found that McKinney District's required revenue from water sales is \$1,357,235 to meet the Overall Revenue Requirement of \$1,418,967 and that a \$267,783 revenue increase, or 24.58 percent, to pro forma present rate revenue is necessary to generate the Overall Revenue Requirement.

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<sup>10</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).

Monthly Water Service Rates. McKinney District proposed to increase all of its monthly retail water service rates evenly across the board by 25.55 percent.<sup>11</sup> McKinney District stated that it did not file a cost of service study (COSS).<sup>12</sup> McKinney District stated that it did not consider filing a COSS with the current rate application as there were no material changes in its system and that McKinney District would consider preparing a new COSS if material changes in customer usage patterns were to occur.<sup>13</sup> McKinney District stated that it was unable to locate a copy of the most recent COSS performed.<sup>14</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 in the absence of a COSS.<sup>15</sup> Finding no such evidence in this case, Staff allocated the \$267,783 revenue increase evenly across McKinney District's monthly retail water service rates. The rates recommended in Appendix B to this report are based upon the revenue requirement, as calculated by Staff, and will produce sufficient revenues from water sales to recover the \$1,357,235 revenue required from rates, an approximate 24.58 percent increase. The monthly water bill for a typical residential customer, on a 5/8 x 3/4 Inch

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<sup>11</sup> Application, Exhibit 3, Schedule B.

<sup>12</sup> McKinney District's Response to Staff's First Request, Item 11a.

<sup>13</sup> McKinney District's Response to Staff's First Request, Item 11b and 11c.

<sup>14</sup> McKinney District's Response to Staff's First Request, Item 11d.

<sup>15</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); and 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).

Meter, using 4,281 gallons per month will increase by \$11.63 from \$47.31 to \$58.94, or approximately 24.58 percent.

Nonrecurring Charges and Meter Connection Charges. Given recent issues identified with the calculation of Nonrecurring Charges,<sup>16</sup> Staff reviewed McKinney District's Nonrecurring Charges. Since utility personnel are already compensated for labor performed during regular business hours, and those amounts are already recovered in base rates, estimated labor costs representing periods occurring during regular business hours, included in determining Nonrecurring Charges expense, should be eliminated from the charges. McKinney District provided updated cost justification information for the nonrecurring charges.<sup>17</sup> Reviewing this information, In Case No. 2022-00400, the Commission previously removed labor expenses from McKinney District's Nonrecurring Charges.<sup>18</sup> Staff used the same practice in this case and removed labor expenses from the updated cost justification sheets. The updated cost justification sheets included an increased transportation cost, resulting in an increase to the charges as outlined in the table below.<sup>19</sup> Staff notes McKinney District does not have any Nonrecurring Charges listed in its tariff for after normal business hour events:

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<sup>16</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>17</sup> McKinney District's Response to Staff's First Request, Item 14\_15\_McKinney\_Response\_to\_KPSC\_DR1\_Updated\_NonRecurring\_Charge\_Cost\_Justification\_Sheet s.xlsx.

<sup>19</sup> McKinney District's Response to Staff's First Request, Item 14.

<sup>19</sup> McKinney District's Response to Staff's First Request, Item 14.

Description	Current Charge	Revised Charge
Returned Check Charge	\$10.00	\$11.20
Reconnection Charge	\$34.50	\$37.20
Meter Re-read Charge	\$22.50	\$25.20
Delinquent Service Charge	\$22.50	\$25.20
Service Investigation Charge	\$22.50	\$25.20
Pay Call	\$22.50	\$25.20

McKinney District provided updated cost justification sheets for its 5/8-inch x 3/4-inch Meter Connection and the 5/8-inch x 3/4-inch Tandem Service Connection.<sup>20</sup> Staff reviewed the information provided by McKinney District and recommends an increase to the meter connection charges as shown in the table below, because the higher rates are based on adjustments provided in the supporting documentation.<sup>21</sup>

Description	Current Charge	Revised Charge
5/8 x 3/4 Inch Water Tap On	\$1,421.33	\$1,491
5/8 x 3/4 Inch Tandem Service	\$1,960.85	\$2,184
All Larger Meters	Actual Cost	Actual Cost

Water Loss Surcharge. McKinney District currently charges a water loss reduction surcharge authorized in Case No. 2022-00400.<sup>22</sup> McKinney District was authorized to assess a monthly surcharge of \$4.05 per customer for service rendered on and after September 1, 2023, and continuing for 48 months or until the total amount of surcharge

<sup>20</sup> McKinney District's Response to Staff's First Request, Item 20.

<sup>21</sup> McKinney District's Response to Staff's First Request, Item 20.

<sup>22</sup> Case No. 2024-00400, September 1, 2023, Order.



assessed equals \$362,362, whichever occurs first.<sup>23</sup> As of August 2025, McKinney District currently has \$165,863 in its surcharge account.<sup>24</sup>

### PRO FORMA OPERATING STATEMENT

McKinney District's Pro Forma Operating Statement for the test year ended December 31, 2024, as determined by Staff appears in the table below.

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<sup>23</sup> Case No. 2024-00400, September 1, 2023, Order at 21, ordering paragraph 7.

<sup>24</sup> Case No. 2023-00194, *Electronic McKinney Water District Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring* (filed Sep. 16, 2025), August 2025 Surcharge and Water Loss Reports.

Description	Test Year	McKinney Water District Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
Operating Revenues						
Metered Retail Sales	\$ 1,105,847	\$ (19,302)	\$ -		A	
		2,907		\$ (16,395)	B	\$ 1,089,452
Other Operating Water Revenue						
Miscellaneous Service Revenues	33,230	(33,230)		(33,230)	C	0
Other Revenue						
Nonrecurring Charges	7,166		19,608	19,608	D1	
			2,924	2,924	D2	29,698
Forfeited Discounts	22,540			0		22,540
Miscellaneous Income	3,690	19,302	(19,608)	(306)	D1	
			(1,823)	(1,823)	D3	1,561
Net 911 Receipts	3,031	(3,031)		(3,031)	D4	0
<b>Total Operating Revenues</b>	<b>1,175,504</b>	<b>(33,354)</b>	<b>1,101</b>	<b>(32,253)</b>		<b>1,143,251</b>
Operation and Maintenance						
Salaries and Wages - Employees	276,237	(21,024)	857	(20,167)	E	
			11,295	11,295	E1	267,365
Salaries and Wages - Officers	22,235		(10,940)	(10,940)	F	
			(11,295)	(11,295)	F1	0
Purchased Water	539,769	(106,256)		(106,256)	G	
		(48,163)	(16)	(48,179)	H	385,334
Water Sampling/Testing	7,970			0		7,970
Repair & Maint.	78,645	(29,749)		(29,749)	I	
		(15,122)		(15,122)	I1	33,774
Office expenses Other	29,398	(6,758)		(6,758)	J	22,640
Office Supplies	3,138			0		3,138
Postage Rental	824			0		824
Postage	9,672			0		9,672
Contractual Services - Accounting	7,130			0		7,130
Contractual Services - Legal	948			0		948
Contractual Service - Other	46,098	(15,960)		(15,960)	K	30,138
Transportation Expenses	26,476			0		26,476
Insurance - General Liability	6,657			0		6,657
Insurance - Workers Compensation	3,150			0		3,150
Insurance - Vehicle	2,014			0		2,014
Advertising	365			0		365
Bad Debts Expense	7,920			0		7,920
Misc. and General Expenses:						
Miscellaneous Expense	(2,530)			0		(2,530)
Utilities	17,368	(1,383)		(1,383)	H1	15,985
Garnishment/Wages	3,740	(3,740)		(3,740)	E2	0
Credit Card Processing Fees	13,803			0		13,803
<b>Total</b>	<b>1,101,027</b>	<b>(248,155)</b>	<b>(10,099)</b>	<b>(258,254)</b>	<b>0</b>	<b>842,773</b>
Amortization		3,333		3,333	L	3,333
Depreciation Expense	80,098	1,832	(333)	1,499	M	
		753	(16)	737	M1	
		2,643		2,643	M2	
		3,939		3,939	M3	
		130,554		130,554	M4	219,470
Taxes Other Than Income						
Payroll Taxes	23,066	(3,542)	929	(2,613)	N	20,453
Other Tax and License	2,590			0		2,590
<b>Total Operating Expenses</b>	<b>1,206,781</b>	<b>(108,643)</b>	<b>(9,519)</b>	<b>(118,162)</b>		<b>1,088,619</b>
Net Operating Income	(31,277)	75,289	10,620	85,909		54,632
Interest Income	7,933	0	0	0		7,933
Income Available to Service Debt	<b>\$ (23,344)</b>	<b>\$ 75,289</b>	<b>\$ 10,620</b>	<b>\$ 85,909</b>		<b>\$ 62,565</b>

(A) Reclassify Water Sales Revenue to Other Water Revenue. McKinney District proposed reclassifying \$19,302 from water sales revenue to other water revenue.<sup>25</sup> McKinney District stated that the revenue was generated from the assessment of Meter Re-Read, Delinquent Service, Service Investigation, and Pay Call charges.<sup>26</sup> Staff recommends accepting this adjustment as known and measurable.

(B) Billing Analysis Adjustment. McKinney District's reported test year metered water sales of \$1,105,847.<sup>27</sup> Due to the adjustment to reclassify nonrecurring charge revenues discussed above, McKinney District's corrected test year amount was \$1,086,545. McKinney District further proposed an increase of \$2,907 to Metered Water Sales to match the provided billing analysis with total metered water sales revenue of \$1,089,452.<sup>28</sup> Staff recommends accepting McKinney District's proposed increase of \$2,907 to Metered Water Sales to normalize water service revenues to the amounts indicated in its billing analysis.<sup>29</sup>

(C) Miscellaneous Service Revenue. McKinney District proposed reclassifying \$33,230 originally reported as Other Water Revenue to Proceeds from Capital Contributions, a non-revenue account.<sup>30</sup> McKinney District stated that the proceeds were generated from the assessment of Meter Connection/Tap-on charges. As prescribed by the Uniform System of Accounts (USoA), Meter Connection fees are not considered

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<sup>25</sup> Application, Exhibit 3, References, Reference A.

<sup>26</sup> Application, Exhibit 3, References, Reference A.

<sup>27</sup> 2024 Annual Report at 49.

<sup>28</sup> Application, Exhibit\_4\_McKinney\_Billing\_Analysis.xlsx.

<sup>29</sup> Application, Exhibit\_4\_McKinney\_Billing\_Analysis.xlsx.

<sup>30</sup> Application, Exhibit 3, References, Reference C.

revenue but are a Capital Contribution<sup>31</sup>. The adjustment results in a decrease to Miscellaneous Service Revenue in the amount of \$33,230 which results in an ending balance of \$0. Staff recommends accepting the adjustment as known and measurable.

(D) Other Revenues. In its test year, McKinney District reported \$36,428 in other water revenue which is comprised of Reconnection Charges (Nonrecurring Charge) of \$7,166, Forfeited Discounts of \$22,540, Miscellaneous Income of \$3,690, and Net 911 Receipts of \$3,031.<sup>32</sup> As discussed above McKinney District proposed reclassifying \$19,302 (A) from Metered Retail Sales to Miscellaneous Income.<sup>33</sup> Staff recommends four adjustments that increase Other Revenues by \$17,372. First, Staff notes that some components of revenues from nonrecurring charges were included in this amount as well as in Miscellaneous Income and reclassified \$19,608 (D1) to the Nonrecurring Charges account to include all nonrecurring charges revenues in one account. Second, McKinney District provided the number of instances that each nonrecurring charge was performed during the test period,<sup>34</sup> as well as the cost justification sheets.<sup>35</sup> Staff reviewed the responses, the cost justification sheets, and the general ledger. Using this information, as well as the current nonrecurring charge amount listed in its current tariff, Staff calculated Pro Forma revenue from Nonrecurring Charges of \$29,698, as shown in the following table, which results in an increase of \$2,924 (D2).

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<sup>31</sup> Uniform System of Accounts for Class A/B Water Districts, Accounting Instruction 19 and 33.

<sup>32</sup> Application, Exhibit 3, Statement of Adjusted Operations.

<sup>33</sup> Application, Exhibit 3, References, Reference A.

<sup>34</sup> McKinney District's Response to Staff's Second Request, Item 9.

<sup>35</sup> McKinney District's Supplemental Response to Staff's First Request, Item 14, 14\_15\_McKinney\_Response\_to\_KPSC\_DR1\_Updated\_NonRecurring\_Charge\_Cost\_Justification\_Sheet s.xlsx.

Description	Occurrences	Current Charge	Revised Charge	Pro Forma
Returned Check Charge	19	\$10.00	\$11.20	\$ 213
Reconnection Charge	208	\$34.50	\$37.20	7,738
Meter Re-read Charge	2	\$22.50	\$25.20	50
Delinquent Service Charge*	858	\$22.50	\$25.20	21,622
Service Investigation Charge	2	\$22.50	\$25.20	50
Pay Call	1	\$22.50	\$25.20	25
Pro Forma Test Year NRC Revenue				\$ 29,698
Less: Test Year NRC Revenue ( )				(26,774)
Adjustment				\$ 2,924

Third, Staff determined that \$1,823 (D3) of items in the General Ledger Account Miscellaneous Income are non-revenue receipts and should be removed. The \$1,823 is comprised of \$1,058 for an insurance refund,<sup>36</sup> \$660 for a customer reimbursement for breaking a water line,<sup>37</sup> and the remaining \$105 for customer deposits.<sup>38</sup> Staff recommends decreasing Miscellaneous Income by \$1,823 to account for nonrecurring or unusual transactions that do not represent a typical year's expenses, or other transactions that are not considered Operating Revenues.

Fourth, McKinney District also proposed to remove the \$3,031 (D4) in Net 911 Receipts from Other Water Revenue because generally accepted accounting and rate-making principles dictate that these receipts should be reported as Taxes Receivable and Taxes Payable.<sup>39</sup> Staff agrees with the methodology as the USoA prescribes that gross

<sup>36</sup> McKinney District's Supplemental Response to Staff's First Request, Item 1a, GENERAL\_LEDGER\_MCKINNEY\_2024.xlsx, at row 2927.

<sup>37</sup> McKinney District's Supplemental Response to Staff's First Request, Item 1a, GENERAL\_LEDGER\_MCKINNEY\_2024.xlsx, at row 2911.

<sup>38</sup> McKinney District's Response to Staff's First Request, GENERAL\_LEDGER\_MCKINNEY\_2024.xlsx.

<sup>39</sup> Application, SAO, Reference D.

receipts taxes that should have been reported as tax collections payable and not included as revenues.<sup>40</sup> Staff recommends accepting this adjustment to decrease Other Water Revenue by \$3,031 as it is a known and measurable adjustment.

(E) Salaries and Wages - Employees. McKinney District reported \$276,237 of expenses related to Salaries and Wages - Employees<sup>41</sup> and proposed one adjustment to decrease expenses by \$21,024 to reflect changes in personnel and wage rates to reach the calculated pro forma amount of \$255,213.<sup>42</sup> McKinney District currently has two full-time office employees, three full-time field employees and one part-time field employee.<sup>43</sup> McKinney District's test-year wages were affected by significant employee turnover that occurred during and after the test year.<sup>44</sup> McKinney District's Office Manager retired subsequent to the end of the test year and was replaced by an existing employee.<sup>45</sup> In addition, a part-time field employee commenced full-time employment on June 1, 2025.<sup>46</sup> Staff reviewed McKinney District's calculation and recalculated the amount. Staff recommends the Commission accept the Staff's total adjustment of \$20,167, to reflect the test-year expenses as shown below.

Additionally, McKinney District is paying its employees to attend the Board of Commissioners' meetings, and the amount being paid to attend the meetings is charged

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<sup>40</sup> Uniform System of Accounts for Class A/B Water Districts, Account 241 Tax Collections Payable.

<sup>41</sup> Application, Exhibit 3, Statement of Adjusted Operations.

<sup>42</sup> Application, Exhibit 3, References, Reference E.

<sup>43</sup> Application, Exhibit 3, References, Reference E.

<sup>44</sup> Application, Exhibit 3, References, Reference E.

<sup>45</sup> Application, Exhibit 3, References, Reference E.

<sup>46</sup> Application, Exhibit 3, References, Reference E.

to Account 407 (Meeting fees Account). It was recorded as Commissioners' salaries.<sup>47</sup> McKinney District stated that the employee meeting fees follow the fees of the Board of Commissioners.<sup>48</sup> The President of the Board of Commissioners receives \$200 per meeting and all other commissioners receive \$150 per meeting.<sup>49</sup> Each employee receives the same amount per meeting, \$150, as the other Commissioners, and all parties receive an additional \$35 to attend a "special meeting".<sup>50</sup> McKinney District also stated that the employee meeting fees are included in the monthly expense reports that are reviewed and approved by the Board of Commissioners at each meeting.<sup>51</sup> Since the meeting fees are being paid to its employees, Staff recommends reclassifying \$11,295 (E1) under Salaries and Wages – Employees Account from Salaries and Wages - Officers Account.

Employee Position	Test-Year Regular Hours	Current Wage Rate	Total Regular Wages	Test-Year Overtime Hours	Current Overtime Rate	Total Overtime Wages	Total Wages
Office Manager	2,080	\$ 21.00	43,680	12.50	31.50	\$ 394	\$ 44,074
Customer Service Representative	2,080	18.00	37,440	3.00	27.00	81	37,521
Field Manager	2,080	32.00	66,560	337.00	48.00	16,176	82,736
Field Service	2,080	18.00	37,440	44.00	27.00	1,188	38,628
Field Service - New Employee	2,080	15.00	31,200	-	22.50	-	31,200
Part-Time Field Service:							
Holiday Pay	108	17.00	1,836	-	-	-	1,836
Meter Reading, \$55 per day							20,075
Total	<u>10,508</u>		<u>\$ 218,156</u>	<u>396.50</u>		<u>\$ 17,839</u>	<u>256,070</u>
Test Year Emp. Salaries & Wages Exp ( )							(276,237)
Pro Forma Adjustment							(20,167)
McKinney District Adjustment ( )							(21,024)
Difference Between McKinney District's and Commission Staff's Adjustments							<u>\$ 857</u>

<sup>47</sup> McKinney District's Response to Staff's Second Request, Item 7a.

<sup>48</sup> McKinney District's Response to Staff's Second Request, Item 7c.

<sup>49</sup> McKinney District's Response to Staff's Second Request, Item 7c.

<sup>50</sup> McKinney District's Response to Staff's Second Request, Item 7c.

<sup>51</sup> McKinney District's Response to Staff's Second Request, Item 7b.

McKinney District stated that \$3,740 (E2) of garnished wages was reported in Miscellaneous General Expenses during the test year and that these costs were removed from test year operations and were embedded in the wage adjustment.<sup>52</sup>

(F) Salaries and Wages - Officers. McKinney District reported \$22,235 of expenses related to Salaries and Wages – Officers and proposed no adjustments.<sup>53</sup> As discussed above, Staff recommends a reclassification of \$11,295 for employee payments for attending meetings to Salaries and Wages – Employees. McKinney District’s commissioner salaries during the test year are the remaining \$10,940 after the reclass of employee payments.<sup>54</sup> McKinney District’s Board of commissioners consists of five members; Staff reviewed commissioners’ compensation information provided by McKinney District and determined that the highest full year compensation during 2024 for any Commissioner was \$2,600.<sup>55</sup> McKinney District provided Lincoln County Fiscal Court minutes that approved the commissioners’ appointments<sup>56</sup> and training records for all of its commissioners except Mike Reed.<sup>57</sup> McKinney District stated it was under the assumption that Mr. Reed was not required to participate in training due to his longevity and experience as a commissioner.<sup>58</sup> Staff recommends the Commission encourage all commissioners who have not attended training in the past 2 years, to attend as a

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<sup>52</sup> Application, Exhibit 3, References, Reference E.

<sup>53</sup> Application, Exhibit 3. Statement of Adjusted Operations.

<sup>54</sup> \$22,235 - \$11,295 = \$10,940

<sup>55</sup> McKinney District’s Response to Staff’s First Request, Item 9, Board\_OF\_Commissioners.

<sup>56</sup> McKinney District’s Response to Staff’s First Request, Item 9c, McKinney\_Water\_District\_Oaths.

<sup>57</sup> McKinney District’s Response to Staff’s First Request, Item 9d, Commissioners\_Training.

<sup>58</sup> McKinney District’s Response to Staff’s Second Request, Item 6b.



refresher. Staff could not verify proper pay authorization. McKinney District stated that the Lincoln County Fiscal Court could not locate the commissioners' compensation documents.<sup>59</sup> KRS 74.020(6) states that

[e]ach commissioner shall receive an annual salary of not more than thirty-six hundred (\$3,600)" and that "[i]n fixing and approving the salary of the commissioner, the county judge/executive and the fiscal court shall take into consideration the financial condition of the district and its ability to meet its obligations as they mature."<sup>60</sup>

Since the commissioners are being paid on per meeting basis and because there are not fiscal court minutes approving its commissioners' salaries, Staff recommends that McKinney District request the Lincoln County Fiscal Court to update its authorization of McKinney District's commissioner compensation as soon as possible. Staff further recommends that McKinney District request the Lincoln County Fiscal Court to include McKinney District Commissioner compensation authorization in Fiscal Court minutes upon the appointment or reappointment of each future McKinney District Commissioner. Staff recommends that a fixed salary should be set by the Lincoln County Fiscal Court. Paying commissioners per meeting or occurrence creates the possibility that a commissioner could be paid more than the statutorily allowable amount in the event the utility must hold more meetings than expected, or the commissioners have more frequent occurrences where they are needed to attend to utility business. Since McKinney District did not provide the pay authorization, Staff recommends an adjustment to remove \$10,940 of expenses related to McKinney District's commissioners' salaries. Staff

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<sup>59</sup> McKinney District's Response to Staff's Second Request, Item 6a.

<sup>60</sup> KRS 74.020(6), Appointment of commissioner – Number – Terms – Removal – Vacancies – Organization – Bond – Compensation – Mandatory Training – Notice of Vacancy.

recommends the Commission accept Staff's recommendation because it is known and measurable.

(G) Purchased Water. McKinney District purchases water from Stanford Waterworks (Stanford) and Eubank Water System (Eubank).<sup>61</sup> McKinney District reported \$539,769 in purchased water expenses and proposed an adjustment to decrease its expenses by \$106,256.<sup>62</sup> During the test year, McKinney District purchased 109,202,000 gallons of water for resale from Stanford and 33,737,100 gallons from Eubank.<sup>63</sup> McKinney District stated that, upon completion of the water connection between McKinney District and Danville approved in Case No. 2025-00022,<sup>64</sup> McKinney District will decrease purchases from Standford by 63.62 percent and 40 percent from Eubank.<sup>65</sup> Staff reviewed McKinney District's calculation and finds it reasonable. Therefore, Staff agrees with McKinney District's proposed reduction of \$106,256 and recommends the Commission accept McKinney District's proposed adjustment because it is known and measurable.

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<sup>61</sup> Application, Exhibit 3 at 7.

<sup>62</sup> Application, Exhibit 3. Statement of Adjusted Operations.

<sup>63</sup> Application, Exhibit 3 at 7.

<sup>64</sup> See Case No. 2025-00022, *Electronic Application of Mckinney Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project and an Order Authoring the Issuance of Securities Pursuant to the Provisions of KRS 278.020, KRS 278.300 and 807 KAR 5:001* (Ky. PSC Mar. 28, 2025 and May 14, 2025), final Order approved Phase 1B and final Order approved Phase 1A.

<sup>65</sup> Application, Exhibit 3 at 7.

Description	Stanford	Eubank	Danville	Total
Test Year Gallons Purchased	109,202,000	33,737,100		142,939,100
Times:	63.618%	40.001%		
Moved to Danville	(69,472,128)	(13,495,177)	82,967,306	
Pro forma Gallons	39,729,872	20,241,923	82,967,306	142,939,100
Times: Rate Per Thousand	3.53	4.61	2.41	
Pro Forma Expense	140,246	93,315	199,951	\$ 433,513
Less: Test Year				(539,769)
McKinney District Proposed Adjustment				<u>\$ (106,256)</u>

(H) Excess Water Loss. In its application, McKinney District proposed adjustments to decrease Purchased Water Expense by \$48,163 and Purchased Power Expense by \$1,384<sup>66</sup> (H1) to reflect the disallowance of water loss expense in excess of 15 percent. During the test year, McKinney District reported water loss of 26.1136 percent.<sup>67</sup> Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included for ratemaking purposes.<sup>68</sup> Staff reviewed McKinney District's calculation and determined an additional \$16 adjustment was required for Purchased Water Expense. Staff recommends the Commission accept Staff's adjustment, since the amounts reflect the limit to costs related to excess water loss to 15 percent.

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 433,513	\$ 12,449	\$ 445,962
Water Loss in Excess of 15%	11.1136%	11.1136%	11.1136%
Disallowed Water Loss	48,179	1,384	49,563
McKinney Proposed Adjustment ( )	(48,163)	(1,384)	(49,547)
Additional Adjustment	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 16</u>

<sup>66</sup> Application, Exhibit 3, SAO.

<sup>67</sup> 2024 Annual Water Report at 57.

<sup>68</sup> 807 KAR 5:066 (Water), Section 6(3) (Water Supply Measurement).

(l) Materials and Supplies. McKinney District reported \$78,645 of expenses related to Materials and Supplies and proposed two adjustments.<sup>69</sup> First, McKinney District included the purchase of assets totaling \$29,749 consisting of a portable pump, a pump at a pumping station, and 100 new meters in test year Materials and Supplies.<sup>70</sup> Each of these assets were placed into service during the test year.<sup>71</sup> McKinney District stated it has removed these costs from the operating expenses and capitalized to be depreciated over their estimated useful lives.<sup>72</sup> McKinney District proposed a corresponding adjustment to test-year depreciation expense of \$1,832 discussed in Depreciation Expense below.<sup>73</sup>

McKinney District installed 23 new 5/8-inch meter connections and two new 1-inch meter connections during the test-year and proposed to remove expense related to the costs of installations.<sup>74</sup> The reported costs of these installations totaled \$21,490 which included \$15,960 of contract labor and \$4,600 for 23 new meters.<sup>75</sup> McKinney District stated that the remaining \$930 cost of the 1-inch meters was incurred prior to the test year and was not included in the test year operations.<sup>76</sup> McKinney District stated that the total cost of the new installations was \$36,612, and the additional costs from the reported

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<sup>69</sup> Application, Exhibit 3, Statement of Adjusted Operations.

<sup>70</sup> Application, Exhibit 3, References, Reference H.

<sup>71</sup> Application, Exhibit 3, References, Reference H.

<sup>72</sup> Application, Exhibit 3, References, Reference H.

<sup>73</sup> Application, Exhibit 3, References, Reference H.

<sup>74</sup> Application, Exhibit 3, References, Reference I.

<sup>75</sup> Application, Exhibit 3, References, Reference I.

<sup>76</sup> Application, Exhibit 3, References, Reference I.

amount were related to the wages, labor overheads, and other materials and supplies.<sup>77</sup> To capitalize the full amount of \$36,612, McKinney District reduced the test year Materials and Supplies by \$15,122 (I1), Contractual Service – Other expense by \$15,960 (K), and because the meter costs of \$4,600 were already capitalized and \$930 were not included in test year amounts did not have to make an adjustment for meter purchase costs.<sup>78</sup> The United System of Accounts for class A/B Water systems (USoA) requires these costs be capitalized as Utility plant in Service and depreciated over their estimated useful lives.<sup>79</sup> McKinney District proposed a corresponding adjustment to test-year depreciation expense of \$753 discussed in Depreciation expense below. Staff agrees with McKinney District's calculation and recommends accepting McKinney District's proposed reductions of \$29,749 and \$15,122 because the amounts are known and measurable and correctly capitalize costs for capital investments.

(J) Office Expense Other. McKinney District reported \$29,398 of expenses related to Office Expense – Other and proposed an adjustment to reduce its expenses by \$6,758.<sup>80</sup> McKinney District stated that during the test year it utilized Software Solutions for its billing software system at an annual maintenance cost of \$5,133.<sup>81</sup> McKinney District entered into a contract with Ampstun Corp. (Ampstun) during the test year to replace the services provided by Software Solutions.<sup>82</sup> McKinney District stated that the

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<sup>77</sup> Application, Exhibit 3, References, Reference I.

<sup>78</sup> Application, Exhibit 3, References, Reference I.

<sup>79</sup> USoA, Accounting Instructions 19 and 33.

<sup>80</sup> Application, Exhibit 3, SAO.

<sup>81</sup> Application, Exhibit 3, References, Reference J.

<sup>82</sup> Application, Exhibit 3, References, Reference J.

Ampstun contract required a one-time \$18,500 billing software development fee and an ongoing annual maintenance fee of \$3,000.<sup>83</sup>

McKinney District reported \$4,625 of the development fee in the test year as Materials and Supplies Expense.<sup>84</sup> In support of its proposed adjustment, McKinney District stated that pro forma operations were revised to (1) decrease annual software maintenance expense from \$5,133 to \$3,000, (2) capitalize the \$18,500 development fee, and (3) recognize annual depreciation expense of \$2,643 based on a seven-year depreciable life.<sup>85</sup> McKinney District proposed a corresponding adjustment to test-year depreciation expense. Staff reviewed McKinney District’s general ledger<sup>86</sup> calculation and the supporting document.<sup>87</sup> Staff finds the proposed adjustment to be reasonable and recommends that the Commission accept McKinney District’s proposed adjustment.

Description	Amount
Software Solutions Annual Fee	\$ (5,133)
Ampstun Annual Fee	3,000
Capitalized Test Year Ampstun Development Fee	<u>(4,625)</u>
Net Adjustment to Materials and Supplies	<u><u>\$ (6,758)</u></u>

(K) Contractual Services – Other. McKinney District reported \$46,098 of expenses related to Contractual Services – Other.<sup>88</sup> McKinney District stated that this

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<sup>83</sup> Application, Exhibit 3, References, Reference J.

<sup>84</sup> Application, Exhibit 3, References, Reference J.

<sup>85</sup> Application, Exhibit 3, References, Reference J.

<sup>86</sup> McKinney District’s Response to Staff’s First Request, Item 1a, 2024 General Ledger, Account Number 415.

<sup>87</sup> McKinney District’s Response to Staff’s Second Request, Item 3a, McKinney\_Response\_To\_KYPSC\_DR2

<sup>88</sup> Application, Exhibit 3, Statement of Adjusted Operations.

account included \$15,960 of contract labor costs for the installation of 23 new 5/8-inch meter connections and 2 new 1-inch meter connections.<sup>89</sup> Accordingly, McKinney District reduced test-year Contractual Services – Other expense by \$15,960 and capitalized the amount to be depreciated over the estimated useful lives of the related assets, as discussed in the Materials and Supplies section.

Staff reviewed and agrees McKinney District's adjustment. Staff recommends the Commission accept McKinney District's proposed adjustments because they are known and measurable.

(L) Rate Case Expense. McKinney District did not report any test-year expenses related to Rate Case Expense but proposed one adjustment to increase Rate Case Expense by \$3,333.<sup>90</sup> McKinney District estimated rate case expense of \$10,000.<sup>91</sup> McKinney District provided the copy of the contract prepared by the Kentucky Rural Water Association (KRWA) and stated in addition to the KRWA contract fee; McKinney District incurred publication costs.<sup>92</sup> McKinney District proposed to amortize the rate case expense over three years.<sup>93</sup> Staff agrees with McKinney District's methodology because utilities are expected to file for a rate adjustment every three to five years. Staff reviewed the contract and recommends the Commission accept McKinney District's proposed adjustment because it is known and measurable.

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<sup>89</sup> Application, Exhibit 3, References, Reference I.

<sup>90</sup> Application, Exhibit 3, Statement of Adjusted Operations.

<sup>91</sup> Application, Exhibit 3, References, Reference K.

<sup>92</sup> McKinney District's Response to Staff's First Request, Item 4.

<sup>93</sup> Application, Exhibit 3, References, Reference K.

(M) Depreciation Expense. McKinney District reported \$80,098 of expenses related to Depreciation and proposed five adjustments.<sup>94</sup> First, it proposed to increase Depreciation Expense by \$1,832, as discussed above, in Materials and Supplies, for the purchase of 100 meters with a total cost of \$29,749 and proposed a service life of 15 years.<sup>95</sup> McKinney District stated that the term of the meter warranty is 10 years and provided no other evidence to support the proposed 15-year life.<sup>96</sup> Unless evidence is supplied to justify a different useful life, the Commission has previously determined that radio read Meters should be depreciated over a 20-year service life.<sup>97</sup> Since McKinney District did not provide any other information to justify the proposed 15-year service life, Staff recalculated depreciation for the meters over a 20-year service and recommends an increase to depreciation expense of \$1,499 which is \$333 decrease from McKinney District's proposed adjustment.

Second, McKinney District proposed to increase Depreciation Expense by \$753 (M1). McKinney District stated that depreciation should be increased to reflect the inclusion of two 1-inch meters that were purchased prior to the test year but installed during the test year, along with that 23 new 5/8-inch meters also placed in service during the test year. McKinney District depreciated the two 1-inch meters over 15 years. As mentioned above, and since McKinney District did not provide any other information to

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<sup>94</sup> Application, Exhibit 3, Statement of Adjusted Operations.

<sup>95</sup> Application, Exhibit 3, References, Reference H.

<sup>96</sup> McKinney District's Response to Staff's First Request, Item 17b.

<sup>97</sup> See Case No. 2024-00061, *Electronic Application of Butler County Water Systems, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 1, 2024), Order at 9-20; See also 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), Order at 21-22.



justify the proposed 15-year service life, Staff recalculated depreciation for the meters over a 20-year service life for the two 1-inch meters and recommends an adjustment of \$737 (M1), which is a \$16 decrease from McKinney District's proposed adjustment. Staff agrees with McKinney District's depreciation of the meter installation costs over 45 years.<sup>98</sup> Staff recommends the Commission accept Staff's adjustment because it is known and measurable.

Third, as discussed above in Office Expense – Other, McKinney District proposed an adjustment to increase Depreciation Expense by \$2,643 (M2) to reflect the capitalization of the billing software development fee.<sup>99</sup> McKinney District entered into a contract with Ampstun that included a one-time \$18,500 billing software development fee and this cost was depreciated over a seven-year useful life, resulting in an annual depreciation expense of \$2,643 (M2).<sup>100</sup> Staff reviewed McKinney District's calculation and supporting documentation and recommends the Commission accept McKinney District's proposed adjustment.

Fourth, McKinney District stated that, in its application filed in Case No. 2022-00400, it proposed depreciable lives for plant assets generally equal to the midpoint of the service life ranges set forth in the National Association of Regulatory Utility Commissioners' (NARUC) 1979 publication Depreciation Practices for Small Water Utilities ("NARUC Study").<sup>101</sup> The Commission had approved those proposed useful

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<sup>98</sup> Application, Exhibit 3, References, Reference I, Chart on page 19.

<sup>99</sup> Application, Exhibit 3, References, Reference J.

<sup>100</sup> Application, Exhibit 3, References, Reference J, Chart on page 20.

<sup>101</sup> Application, Exhibit 3, References, Reference L.

lives in its final Order dated September 1, 2023.<sup>102</sup> McKinney District stated that it calculated test year depreciation using the Commission approved lives for all plant accounts except for Asset No. 151, Telemetry – Bonneville Tank, and Asset No. 158, Tank Painting and Repairs as these assets were assigned a 45-year life.<sup>103</sup> McKinney District stated that the proper depreciable lives for Telemetry and Tank Painting and Repairs are 10 years and 15 years, respectively. Accordingly, McKinney District stated that test year depreciation was increased by \$3,939 (M3) to correct the depreciation expenses on these assets in pro forma operations due to the change in useful life.<sup>104</sup> Staff reviewed McKinney District’s calculation and proposed adjustment and recommends Commission accept McKinney District’s proposed adjustment because it is known and measurable.

Lastly, in Case No. 2025-00022, McKinney District filed an application with the Commission requesting approval for the construction and financing of water system improvements with an estimated total cost of \$6,465,746.<sup>105</sup> McKinney District stated the project is schedule to be completed on July 15, 2026.<sup>106</sup> In Case No. 2025-00022, McKinney District proposed \$186,090 of expenses related to Depreciation, but in this case, McKinney District proposed an adjustment of \$130,554 (M4). McKinney District explained the reason behind the difference was due to two things; a change in projected

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<sup>102</sup> Application, Exhibit 3, References, Reference L.

<sup>103</sup> Application, Exhibit 3, References, Reference L.

<sup>104</sup> Application, Exhibit 3, References, Reference L.

<sup>105</sup> Application, Exhibit 3, References, Reference M.

<sup>106</sup> McKinney District’s Response to Staff’s First Request, Item 21a & b, 21\_McKinney\_Response\_to\_KPSC\_DR1,\_Item\_21,\_Spears\_email.

useful life and changes in distribution of costs.<sup>107</sup> Staff notes the inclusion of this project in depreciation expense even though it is not currently in service should not be construed as precedent and was only included in this specific case because it includes a substantial offset to purchased water as discussed above and because the debt service payments for the project are set to start in 2026 and McKinney District should receive the funds for repayment before the first payments are due. Due to the inclusion of the debt service used solely for the project, Staff recommending including the associated costs and cost benefits from the project as well. Staff agrees with McKinney District's calculation and recommends Commission accept McKinney District's proposed adjustment.

Asset Class	Original Cost	NARUC recommended Service Lives	Test Year Depreciation	Staff Calculated Depreciation	Depreciation Adjustment
Portable Pump	1,516	17.5	87	87	0
Pump at Pumping Station	8,233	20	412	412	0
100 5/8 inch * 3/4 Meters	20,000	20	1,333	1,000	(333)
2 * 1 Inch New Meter Installation	930	20	62	47	(16)
Meter Installation Costs	31,082	45	691	691	0
Telemetry Bonneville Tank	12,750	10	283	1,275	992
Tank Refurbish Project	66,317	15	1,474	4,421	2,947
Land and Land Rights	61,887	0	0	0	0
Pumping Equipments	360,621	20	18,031	18,031	0
Distribution Reservoirs and Standpipes	784,651	45	17,437	17,437	0
Transmission and Distribution Mains	4,618,928	62.5	73,903	73,903	0
Meters, Installation, Services	306,836	40	7,671	7,671	0
Other plan - Main Line Presurre Reducer	215,035	62.5	3,441	3,441	0
Hydrants	21,333	50	427	427	0
Communication - Telemetry	96,454	10	9,645	9,645	0

(N) Payroll Taxes. – McKinney District reported \$23,066 of expenses related to Payroll Taxes and proposed a reduction of \$3,542.<sup>108</sup> Due to changes in Salaries and Wages, Staff recalculated the Payroll Taxes and recommends an adjustment of \$2,613, which is a \$929 decrease from McKinney District's proposed adjustment. The adjustment

<sup>107</sup> McKinney District's Response to Staff's First Request, Item 21a and b, 21\_McKinney\_Response\_to\_KPSC\_DR1,\_Item\_21,\_Spears\_email.

<sup>108</sup> Application, Exhibit 3, Statement of Adjusted Operations.

results in pro forma test year amount of \$20,590. Staff recommends the Commission accept Staff's adjustment as it is known and measurable.

Description	Amount
Salaries and Wages - Employees	\$ 267,365
Salaries and Wages - Officers	0
Total Salaries and Wages	267,365
Times: 7.65 Percent FICA Rate	7.65%
Pro Forma Payroll Taxes	20,453
Test Year Payroll Taxes ( )	(23,066)
Commission Staff's Adjustment	(2,613)
Difference Between McKinney District's and Staff Calculation	<u>\$ 929</u>

### OVERALL REVENUE REQUIREMENT

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 a recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working 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.

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<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, 725 (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).

Description	McKinney Water District	Commission Staff
Pro Forma Operating Expenses	\$ 1,098,137	\$ 1,088,619
Average Annual Principal and Interest Payments	270,808	270,808
Additional Working Capital at 20%	54,162	54,162
Interest on Customer Deposits	5,378	5,378
Total Revenue Requirement	1,428,485	1,418,967
Other Revenue ( )	(52,699)	(53,799)
Interest Income ( )	(7,933)	(7,933)
Revenue Required From Water Sales	1,367,853	1,357,235
Revenue from Sales at Present Rates ( )	(1,089,452)	(1,089,452)
Required Revenue Increase / (Decrease)	<u>\$ 278,400</u>	<u>\$ 267,783</u>
Percentage Increase / (Decrease)	<u>25.55%</u>	<u>24.58%</u>

Average Annual Principal and Interest Payments and Additional Working Capital.

McKinney District requested to recover debt service of \$270,808 on one loan from Kentucky Rural Water Financing Agency (KRWFA), one Kentucky Infrastructure Authority (KIA) loan, and four loans from the United States Department of Agriculture Rural Development Bonds on three-year average of the annual principal, interest, and fee payments for the years 2026 through 2028.<sup>110</sup> Staff agrees the methodology McKinney District proposed is reasonable and recommends the Commission accept McKinney District's proposed average annual principal and interest payments.

The DSC method, as historically applied by the Commission, includes an allowance of additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its exhibits, McKinney District requested recovery of an allowance for working capital that is equal to

<sup>110</sup> Application, Exhibit 3, Schedule C, Debt Service Schedule.

120 percent of its average annual debt payments, or \$54,162.<sup>111</sup> Staff agrees the methodology McKinney District proposed is reasonable and recommends the Commission accept McKinney District's proposed additional working capital.

Description	2026	2027	2028	Total
KRFC Loan	\$ 53,294	\$ 54,623	\$ 53,843	\$ 161,759
KIA Loan	150,099	149,532	148,959	448,590
Bond Series 1992	31,625	31,450	31,225	94,300
Bond Series 1999 A	6,299	6,264	6,422	18,985
Bond Series 1999 B	4,324	4,332	4,436	13,092
Bond Series 2000	25,425	24,905	25,369	75,699
Total	<u>\$ 271,066</u>	<u>\$ 271,105</u>	<u>\$ 270,254</u>	<u>\$ 812,425</u>
Three Year Average				<u>\$ 270,808</u>
Additional Working Capital at 20 Percent				<u>\$ 54,162</u>

#### ADDITIONAL STAFF COMMENTS

Staff notes that in Case No, 2025-00022, the Commission ordered McKinney District to file a rate review by June 30, 2026.<sup>112</sup> Staff recommends the Commission state the current ARF proceeding does not alleviate the requirement from that Order, but also remind McKinney District that a rate sufficiency filing is an option if a rate increase is not necessary.

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<sup>111</sup> Application, Exhibit 3, Calculation of Overall Revenue Requirement and Required Revenue Increase.

<sup>112</sup> Case No 2025-00022, final Order (March 28, 2025) at 13.

Signatures

/s/ Vinay Raj Raju

Prepared by: Vinay Raj Raju  
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. 2025-00145 DATED OCT 30 2025

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

	Reconnection Fee Utility Revised Charge	Staff Revised Charge
Field Materials	\$12.00	\$12.00
Field Labor (\$18.00 at 1 hour)		
Field Labor (\$20.50 at 1 hour)	\$38.50	
Office Labor (\$23 at .5 hour)	\$11.50	
Transport. (36 miles @ \$0.70 per mile)	\$25.20	\$25.20
Misc.		
Total Revised Charge	<u>\$87.20</u>	<u>\$37.20</u>
Current Rate	\$34.50	

  

	Returned Check Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor		
Office Labor (\$23 at 1 hour)	\$23.00	
Transport. (16 miles @ \$0.70 per mile)	\$11.20	\$11.20
Misc.		
Total Revised Charge	<u>\$34.20</u>	<u>\$11.20</u>
Current Rate	\$10.00	

  

	Meter Re-read Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$18.00 at 1 hour)		
Field Labor (\$20.50 at 1 hour)	\$38.50	
Transport. (36 miles @ \$0.70 per mile)	\$25.20	\$25.20
Misc.		
Total Revised Charge	<u>\$63.70</u>	<u>\$25.20</u>
Current Rate	\$22.50	



	Delinquent Service Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$18.00 at 1 hour)		
Field Labor (\$20.50 at 1 hour)	\$38.50	
Transport. (36 miles @ \$0.70 per mile)	\$25.20	\$25.20
Misc.		
Total Revised Charge	<u>\$63.70</u>	<u>\$25.20</u>
Current Rate	\$22.50	

	Pay Call Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$18.00 at 1 hour)		
Field Labor (\$20.50 at 1 hour)	\$38.50	
Transport. (36 miles @ \$0.70 per mile)	\$25.20	\$25.20
Misc.		
Total Revised Charge	<u>\$63.70</u>	<u>\$25.20</u>
Current Rate	\$22.50	

	Service Investigation Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$18.00 at 1 hour)		
Field Labor (\$20.50 at 1 hour)	\$38.50	
Transport. (36 miles @ \$0.70 per mile)	\$25.20	\$25.20
Misc.		
Total Revised Charge	<u>\$63.70</u>	<u>\$25.20</u>
Current Rate	\$22.50	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00145 DATED OCT 30 2025

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 McKinney Water District. All other rates and charges not specifically mentioned herein are recommended to remain the same.

Monthly Rates

5/8 X 3/4-Inch Meter

First	1,000 Gallons	\$19.91	Minimum Bill
Next	2,000 Gallons	\$0.01262	Per Gallon
Next	7,000 Gallons	\$0.01076	Per Gallon
Over	10,000 Gallons	\$0.00987	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$66.65	Minimum Bill
Next	5,000 Gallons	\$0.01076	Per Gallon
Over	10,000 Gallons	\$0.00987	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$210.68	Minimum Bill
Over	20,000 Gallons	\$0.00987	Per Gallon

Nonrecurring Charges

Returned Check Charge	\$11.20
Reconnection Charge	\$37.20
Meter Re-read Charge	\$25.20
Delinquent Service Charge	\$25.20
Service Investigation Charge	\$25.20
Pay Call	\$25.20

Meter Connection/Tap On Charges

5/8 x 3/4 Inch Meter Tap On	\$1,491.00
1 Inch Meter Tap On	\$2,184.00
All Larger Meters	Actual Cost

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