

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER	)	CASE NO.
ADJUSTMENT FILING OF MCKINNEY WATER	)	2026-00260
DISTRICT	)	

ORDER

On September 10, 2026, McKinney Water District (McKinney District) tendered its application for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.015 and 807 KAR 5:068. On September 11, 2026, McKinney District amended the filing by submitting a corrected application, and the application was deemed filed.

LEGAL STANDARD

In accordance with KRS 278.015, when a wholesale supplier selling water to a water district increases its rates, the water district has the authority to increase its rate commensurate with the wholesale supplier. The water district must file, within the statutory and regulatory deadlines, a copy of the notice from the wholesale supplier showing the increase in the wholesale rate, and a statement of the volume of purchased water used to calculate the rate adjustment. The Commission shall approve the filing by order after the above documents are filed.

DISCUSSION AND FINDINGS

McKinney District purchases water from city of Stanford (Stanford) and city of Eubank (Eubank). Stanford notified McKinney District that its wholesale rate would

increase \$0.13 per 1,000 gallons from \$3.53 per 1,000 gallons to \$3.66 per 1,000 gallons, effective September 23, 2026.¹ McKinney District proposes to increase the water rates to its customers effective September 23, 2026, to reflect the increased cost of purchased water from Stanford. Eubank did not propose any rate changes.

Unaccounted-for Water Loss

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 the total water produced and purchased, excluding water consumed by a utility in its own operations. In its 2023 Annual Report filed with the Commission, McKinney District reported an unaccounted for water loss of 27.1848 percent.² In its 2024 Annual Report filed with the Commission, McKinney District reported an unaccounted for water loss of 26.1136 percent.³ In its 2025 Annual Report filed with the Commission, McKinney District reported an unaccounted for water loss of 27.3377 percent.⁴ McKinney District's three-year water loss average is 26.8787 percent.⁵ The approximate cost of McKinney District's total water loss using a three-year average is \$163,483.13.⁶

¹ TFS2026-00403 (Ky. PSC August 13, 2026); Stanford submitted the tariff on August 13, 2026, and the tariff was accepted for filing by the Commission by letter dated September 22, 2026, with an effective date of September 23, 2026.

² *Annual Report of McKinney District to the Public Service Commission for the Year Ended December 31, 2023* at 57.

³ *Annual Report of McKinney District to the Public Service Commission for the Year Ended December 31, 2024* at 57.

⁴ *Annual Report of McKinney District to the Public Service Commission for the Year Ended December 31, 2025* at 57.

⁵ $27.1848\% + 26.1136\% + 27.3377\% = 80.6361 / 3 \text{ years} = 26.8787 \text{ percent.}$

⁶ Total water cost at new wholesale rate of \$608,225.59 times 26.8787% water loss equals \$163,483.13.

In Case No. 2022-00400,⁷ the Commission approved a monthly water loss reduction surcharge of \$4.05 per customer for 48 months to help lower system losses to more acceptable levels.⁸ On September 1, 2023, Case No. 2023-00194 was established in order for the Commission to monitor the progress of the water loss reduction surcharge plan established by McKinney District.⁹

Financial Condition and Rates

McKinney District's financial snapshot for 2021 through 2025 is presented below. Based on a review of Commission records, McKinney District last sought a base rate adjustment, through the alternative rate filing (ARF) procedures, in Case No. 2025-00145, which used a 2024 test year. Case No. 2025-00145 became final December 4, 2025, and reflected an increase in revenue of \$278,871 or 25.60 percent.¹⁰ Approximately one month, or \$23,239, of this revenue increase is reflected in 2025 results, the remaining revenue increase of \$255,632 will be realized in 2026 results and is shown in the pro forma column below.¹¹ McKinney District's other rate increases during the review period were due to purchased water adjustment cases and an ARF in Case No. 2022-00400, which increased revenues by \$57,378 or 5.89 percent and established a 48-month water loss surcharge.¹² The revenue increase in Case No. 2022-00400 was offset by a general

⁷ 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), final Order.

⁸ Case No. 2022-00400, Sept. 1, 2023 final Order at 21.

⁹ Case No. 2023-00194, *Electronic McKinney Water District Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring* (Ky. PSC Sept. 1, 2023), opening Order.

¹⁰ Case No. 2025-00145, *Electronic Application of McKinney Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 4, 2025), final Order.

¹¹ \$278,871 Revenue Increase x (1/12) One Month = \$23,239

¹² Case No. 2022-00048, *Electronic Purchased Water Adjustment Filing of McKinney Water District* (Ky. PSC Mar. 16, 2022); Case No. 2023-00344, *Electronic Purchased Water Adjustment Filing of*

increase in operating expenses.¹³ Rate-based income (adjusted net income minus debt service) was negative for all five years. Staff notes that the large decrease in rate-based income in 2025 was primarily due to increases in Contract Labor Expense, Supplies and Postage Expense, and Interest Expense.¹⁴ Cash basis income (rate-based income plus depreciation) was negative in 2021, positive in 2022 and 2023, then negative in 2024 and 2025.

McKinney Water District (Ky. PSC Nov. 30, 2024); 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), final Order at 18.

¹³ *Audit Report of McKinney District to the Public Service Commission for the Year Ended December 31, 2024* (Statements of Operating Expenses) at 10.

¹⁴ *2 Audit Report of McKinney District to the Public Service Commission for the Year Ended December 31, 2025* (Statements of Operating Expenses) at 11.

	2022-00400 Test Year		2022-00400 ARF FO 09/01/2023	2025-00145 Test Year	2025-00145 ARF FO 12/04/2025	
Description / Year	Audited 2021	Audited 2022	Audited 2023	Audited 2024	Audited 2025	Pro Forma 2026
Adjusted Net Income						
Net Income / (Loss)	\$ (100,282)	\$ (42,349)	\$ 5,572	\$ 113,968	\$ 2,584,871	\$ 2,840,503
Other Non-recurring Items ()	-	-	-	(75,000)	(2,682,183)	(2,682,183)
Water Loss Surcharge ()	-	-	(30,480)	(92,206)	(93,378)	(93,378)
Interest Expense	29,382	27,852	26,180	24,516	42,089	42,089
Adjusted Net Income / (Loss)	(70,900)	(14,497)	1,272	(28,722)	(148,601)	107,031
Interest Expense ()	(29,382)	(27,852)	(26,180)	(24,516)	(42,089)	(42,089)
Principal Payments ()	(75,800)	-	(39,100)	(42,300)	(42,600)	(42,600)
Subtract: Total Debt Service ()	(105,182)	(27,852)	(65,280)	(66,816)	(84,689)	(84,689)
Rate-Based Income (Excludes Working Capital of 20%)	(176,082)	(42,349)	(64,008)	(95,538)	(233,290)	22,342
Add: Depreciation Expense	92,622	88,975	89,376	80,098	78,969	78,969
Cash Basis Income	\$ (83,460)	\$ 46,626	\$ 25,368	\$ (15,440)	\$ (154,321)	\$ 101,311
Rate Based Income as Percent of Water Sales	-19%	-4%	-6%	-9%	-20%	
Cash Basis Income as Percent of Depreciation	-90%	52%	28%	-19%	-195%	
Capital Spending	\$ 17,019	\$ 31,000	\$ 37,000	\$ 18,073	\$ 2,531,324	
Cash and Investments						
Unrestricted Cash and Investments	\$ 172,662	\$ 116,918	\$ 191,092	\$ 159,250	\$ 35,993	
Restricted Funds	462,557	530,906	475,207	643,254	1,282,360	
Adjusted Cash Balances	\$ 635,219	\$ 647,824	\$ 666,299	\$ 802,504	\$ 1,318,353	
Net Increase (Decrease) in Cash	\$ (117,636)	\$ 12,605	\$ 18,475	\$ 136,205	\$ 515,849	
Selected Statistical Information (PSC Annual Reports)						
Customer Count	1,864	1,884	1,885	1,909	1,970	
Gallons Purchased	145,740	146,513	143,242	142,895	148,963	
Gallons Sold	97,631	105,789	101,905	104,473	106,590	
Gallons Used for Internal Use	1,927	1,849	2,397	1,107	1,650	
Water Loss Gallons	46,182	38,875	38,940	37,315	40,723	
System Use Percentage	1.32%	1.26%	1.67%	0.77%	1.11%	
Water Loss Percentage	31.6879%	26.5335%	27.1848%	26.1136%	27.3377%	
Gallons Sold Per Customer Per Month	4,365	4,679	4,505	4,561	4,509	
Revenues from the Sale of Water	\$ 917,275	\$ 999,481	\$ 1,051,866	\$ 1,105,847	\$ 1,170,079	
Purchased Water Expense	464,375	505,290	520,156	539,769	577,385	
Purchased Water Expense Over 15% Water Loss	77,495	58,278	63,380	59,988	71,236	
Water Loss Expense Over 15% as Percentage of Water Revenue	8.45%	5.83%	6.03%	5.42%	6.09%	

McKinney District should continue to monitor its operating performance to determine whether a rate adjustment application should be submitted. Future rate cases should be filed at least every three to five years depending on financial performance.

Purchased Water Adjustment Factor

In its application, McKinney District proposed a purchased water adjustment factor of \$0.13 per 1,000 gallons. During the 12 months ended July 31, 2026, McKinney District purchased 111,535,473 gallons of water from Stanford and 46,421,764 gallons of water from Eubank and sold 115,154,146 gallons of water to its customers. The increase in the

cost of purchased water from Stanford is \$14,499.61, resulting in a purchased water adjustment factor of \$0.13 per 1,000 gallons. No rate changes occurred from Eubank.

The purchased water adjustment factor of \$0.13 per 1,000 gallons, as calculated in Appendix A and the rates as set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by McKinney District on and after September 23, 2026, because the rates are supported by evidence of the increase in rates from McKinney District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.13 per 1,000 gallons is approved.
2. The rates proposed by McKinney District are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by McKinney District on and after September 23, 2026.
4. Within 20 days of the date of service of this Order, McKinney District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. This case is closed and removed from the Commission's docket.

Entered on this 9th day of October, 2026.

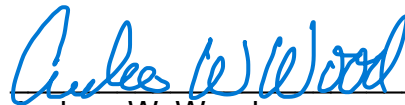
PUBLIC SERVICE COMMISSION



Angie Hatton
Chair



Mary Pat Regan
Vice Chair



Andrew W. Wood
Commissioner

by Atty.
Commissioner



Barry L. Mayfield
Commissioner

ATTEST:


Justin McNeil
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2026-00260 DATED OCT 09 2026

	Base Rate	New Rate	Change
<u>Stanford</u>			
Purchases in Gallons	111,535,473	111,535,473	
Rate per 1,000 Gallons	<u>\$3.53/1,000</u>	<u>\$3.66/1,000</u>	
Subtotal	\$393,720.22	\$408,219.83	\$14,499.61
<u>Eubank</u>			
First 5,000 Gallons	60,000	60,000	
Rate per 1,000 Gallons	<u>\$6.00/1,000</u>	<u>\$6.00/1,000</u>	
Subtotal	\$360.00	\$360.00	no change
<u>Eubank</u>			
Next 5,000 Gallons	60,000	60,000	
Rate per 1,000 Gallons	<u>\$5.30/1,000</u>	<u>\$5.30/1,000</u>	
Subtotal	\$318.00	\$318.00	no change
<u>Eubank</u>			
Purchases in Gallons	45,301,764	45,301,764	
Rate per 1,000 Gallons	<u>\$4.40/1,000</u>	<u>\$4.40/1,000</u>	
Subtotal	\$199,327.76	\$199,327.76	no change
Total	\$593,725.98	\$608,225.59	
Increased water cost			\$14,499.61
Increased water cost		\$14,499.61	
Divided by Gallons sold/1,000		<u>115,154,146</u>	
Purchased water adjustment factor		\$0.1259	per 1,000 Gallons
		or \$ 0.00013	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2026-00260 DATED OCT 09 2026

The following rates and charges 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 the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8 X 3/4-Inch Meter

First	1,000 Gallons	\$20.20	Minimum Bill
Next	2,000 Gallons	\$0.01285	Per Gallon
Next	7,000 Gallons	\$0.01098	Per Gallon
Over	10,000 Gallons	\$0.01008	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$67.86	Minimum Bill
Next	5,000 Gallons	\$0.01098	Per Gallon
Over	10,000 Gallons	\$0.01008	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$223.56	Minimum Bill
Over	20,000 Gallons	\$0.01008	Per Gallon

Service List for Case 2026-00260

* Jason Pennell
Kentucky Rural Water Association
Post Office Box 1424
1151 Old Porter Pike
Bowling Green, KY 42102-1424

* McKinney Water District
2900 KY HWY 198
Hustonville, KY 40437

* Kendra Hocker
Office Manager
McKinney Water District
P. O. Box 7
McKinney, KY 40448