

***ANALYSIS AND RECOMMENDATIONS
FOR
WATER RATES***

MILBURN WATER DISTRICT

January 30, 2026

Prepared by
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Kentucky Rural Water Association

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EXECUTIVE SUMMARY

Milburn Water District requested that Kentucky Rural Water Association perform a water rate study and assist with an application to the Public Service Commission using Alternative Rate Filing procedures. The study is complete and the results are presented in this report.

In accordance with PSC regulations, the study is based on the most recent Annual Report on file with the Commission; in this case, the test period is calendar year 2024. The Schedule of Adjusted Operations (SAO) lists the revenues and expenses for 2024 and applies required adjustments. The adjustments are to recognize any changes in operations after the test year and include certain other items that are commonly required by the PSC. The specific adjustments for Milburn Water District are shown in the SAO with notes for each provided on the Reference pages. Total pro forma operating revenues for the District are \$54,959 and total pro forma operating expenses are \$61,765.

The Revenue Requirements have been calculated using the Debt Service Coverage Method and the Operating Ratio Method, both of which are method accepted by the PSC. Using the Debt Service Coverage, the total Revenue Required from Sales of Water comes to \$52,292; this is an increase above existing pro forma sales of \$785 and indicates an overall rate increase of 1.52% percent is needed. Using the Operating Ratio method, the total Revenue Required from Sales of Water comes to \$53,028; this is an increase above existing pro forma sales of \$1,521 and indicates an overall rate increase of 2.95% percent is needed.

Kentucky Public Service Commission limits the amount of purchased water and power expenses that may be recovered through water rates to no more than the amount of water sold plus up to 15% water loss. During 2024, Milburn Water District experience water loss of 26.26%. Consequently, purchased water of \$2,467 and purchased power of \$125 were excluded from the Revenue Requirements. However, these amounts may be recovered through a temporary forty-eight month Water Loss Reduction Surcharge of \$1.77 per customer per month. However, we recommend not to pursue the monthly surcharge, as the revenue generated would be insufficient to justify the additional administrative costs incurred by the water district.

This analysis indicates that Milburn Water District's current water rates are sufficient to cover operating expenses; the additional revenue requirements are insufficiently small to justify a rate application.

Computations from this study are included in the Schedule of Adjusted Operations with details provided in the Reference page, Schedule A and B, and Tables A and B.

**Corrected Schedule of Adjusted Operations
Milburn Water District**

	2024		
	<u>Test Year</u>	<u>Adjustments</u>	<u>Proforma</u>
<u>Operating Revenues</u>			
Water Sales	51,508	-	51,508
Other Water Revenues	-	3,451	3,451
Proceeds From Capital Contributions	-	14,817	14,817
Total Operating Revenues	51,508	18,268	54,959
<u>Operating Expenses</u>			
Purchased Power	1,106	5	1,111
	-	(125)	(125)
Materials and Supplies	3,369	443	3,812
Contractual Services	15,660	14,817	30,477
Insurance	1,810	262	2,072
Water Testing	1,513	-	1,513
Water Purchased	21,921	(10)	21,911
	-	(2,467)	(2,467)
Miscellaneous Expense	3,509	(49)	3,460
Total Operating Expenses	48,889	12,876	61,765
<u>Other Expenses</u>			
Depreciation	2,686	(152)	2,534
Taxes	-	1,622	1,622
Total Other Expenses	2,686	1,470	4,156
<u>Other Income</u>			
Interest Income	-	-	-
Non-Utility Income	-	-	-
Total Other Income	-	-	-
Net Income	(67)	3,921	(10,963)

Commented [RM1]: Be sure to add your adjustment reference letters to the SAO.

**REVENUE REQUIREMENTS
USING OPERATING RATIO METHOD**

Pro Forma Operating Expenses	61,765
Divided by: Operating Ratio	88%
Subtotal	70,187
Plus: Interest Expense	373
Total Revenue Requirement	<u>70,560</u>
Exclusions from Revenue Requirement	
Other Water Revenues	3,451
Proceeds From Capital Contributions	14,817
Total Exclusions from Revenue Requirement	<u>18,268</u>
Revenue Required From Sales of Water	52,292
Less: Revenue from Sales with Present Rates	51,508
Required Revenue Increase	<u>785</u>
Percent Increase	1.52%

**REVENUE REQUIREMENTS
USING DEBT SERVICE COVERAGE METHOD**

Pro Forma Expenses	
Total Operating Expenses	61,765
Total Other Expenses	4,156
Average Annual Principal and Interest Payments	4,479
Debt Service Coverage	896
Total Revenue Requirement	<u>71,296</u>
Exclusions from Revenue Requirement	
Other Water Revenues	3,451
Proceeds From Capital Contributions	14,817
Total Exclusions from Revenue Requirement	<u>18,268</u>
Revenue Required From Sales of Water	53,028
Less: Revenue from Sales with Present Rates	51,508
Required Revenue Increase	<u>1,521</u>
Percent Increase	2.95%

REFERENCES

- A. Adjusted to reflect billing summary. See Schedule A.
- B. Adjusted to reflect 2024 trial balance. See Schedule B.
- C. The utility's test year water loss was 26.26 percent. The PSC's maximum allowable loss for rate-making purposes is 15.0 percent. Therefore, the expenses for purchased water and purchased power above the 15 percent limit is not allowed in the rate base and must be deducted. Purchased water expense was decreased by \$2,467 and purchased power was reduced by \$125.
- D. The PSC requires adjustments to a water utility's depreciation expense when asset lives fall outside the ranges recommended by NARUC in its publication titled "Depreciation Practices for small utilities". Adjustments are included to bring asset lives to the midpoint of the recommended ranges. Milburn Water District's depreciation expense was decreased by \$152. See Table A.

Schedule A							
Milburn Water District Period Billing Summary							
Month	Number of Customers	Gallons	Water	Other Amount	County Tax	State Tax	Late Fee
January	123	503,814	5,206.50	-	151.80	1.31	375.56
February	122	349,510	4,061.39	-	118.37	1.31	296.19
March	122	345,713	4,076.84	-	118.89	1.31	135.33
April	121	394,080	4,358.94	50.00	127.26	1.31	138.14
May	122	366,266	4,232.75	-	123.57	1.31	148.28
June	123	357,460	4,224.56	-	123.24	1.31	379.19
July	122	356,420	4,826.36	-	141.32	1.31	162.52
August	121	441,706	4,783.07	-	140.00	1.31	6.29
September	122	403,740	4,523.12	(233.59)	132.24	1.31	47.78
October	122	295,410	3,746.02	97.73	108.86	1.31	57.93
November	122	327,520	3,957.96	137.73	114.94	1.31	119.49
December	118	340,660	3,968.18	-	115.05	1.31	-
Total	1460	4,482,299	51,965.69	51.87	1,515.54	15.72	1,866.70
Other Water Revenues(Sum:Other Amount, County Tax, State Tax, & Late Fee)					3,449.83		

Schedule B
Milburn Adjusted 2024 Trial Balance

	Dec 31, 24	
	Credit	Debit
Milburn Water District		1,109.48
Opening Balance Equity	2,023.07	
Retained Earnings	788.28	
427 Interest Expense		4,955.25
408 Taxes		1,621.50
610 PURCHASED WATER		21,911.40
615 PURCHASED POWER		1,111.76
620 MATERIALS/SUPPLIES		3,811.63
630 CONTRACTUAL SERVICES		30,773.50
635 WATER TESTING		1,513.05
655 INSURANCE		2,071.50
675 MISCELLANEOUS EXPENSE		3,460.28
grant	14,817.00	
WATER PAYMENTS	54,711.00	
TOTAL	72,339.35	72,339.35

Table A
DEPRECIATION EXPENSE ADJUSTMENTS
Milburn Water District

	<u>Asset</u>	<u>Date in Service</u>	<u>Original Cost *</u>	<u>Reported Life</u>	<u>Reported Depr. Exp.</u>	<u>Proforma Life</u>	<u>Proforma Depr. Exp.</u>	<u>Depreciation Expense Adjustment</u>
General Plant								
	Structures & Improvements	varies	\$ 95,038	varies	\$ 2,686	37.5	2,534	(152)
TOTALS			\$ 95,038		\$ 2,686		\$ 2,534	\$ (152)

* Includes only costs associated with assets that contributed to depreciation expense in the test year.

Table B
DEBT SERVICE SCHEDULE
Milburn Water District
FY 2026 - 2027

	2026		2027		TOTALS
	Principal	Interest & Fees	Principal	Interest & Fees	
Bank Loan	3,933	547	4,280	199	8,958
Total	3,933	547	4,280	199	8,958
Average Annual Principal & Interest					\$ 4,479
Average Annual Coverage					\$ 896

Input Coverage Percent
20%