

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)	

ORDER

On June 10, 2025,¹ McKinney Water District (McKinney District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. In its application, McKinney District requested rates that would increase its base rate revenue by \$278,400, or 25.55 percent to pro forma present rate water revenues.² To comply with the requirements of 807 KAR 5:076, Section 9,³ 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, was in Case No. 2022-00400.⁴

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

¹ 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.

² Application, Exhibit 3, Schedule B, Revenue Requirement Calculation.

³ 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.

⁴ 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).

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, 2025,⁵ and filed the remainder of its responses on August 12, 2025.⁶ McKinney District responded to Staff's Second Request for Information (Staff's Second Request) on September 17, 2025.⁷

Staff issued its report (Staff Report) on October 30, 2025,⁸ summarizing its recommendations regarding McKinney District's requested rate adjustment. The Staff Report recommended that McKinney District's adjusted test-year operations supported an overall revenue requirement of \$1,418,967, and that an annual revenue increase of \$267,783 or 24.58 percent, to pro forma present rate revenues is necessary to generate the overall revenue requirement.⁹ In the absence of a Cost Of Service Study (COSS),¹⁰ Staff allocated its recommended revenue increase evenly across all customer classes to calculate its recommended water rates.

On November 13, 2025, McKinney District filed its response to the Staff Report and provided three substantive written comments.¹¹ First, McKinney District disagreed

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

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

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

⁸ Staff Report (issued Oct. 30, 2025).

⁹ Staff Report at 29, Revenue Requirement table.

¹⁰ In McKinney District's Response to Staff's First Request, Item 11, McKinney District stated it did not consider filing a COSS with the current rate application because there have not been any material changes to its customer base or customer usage patterns that would warrant the preparation of a COSS

¹¹ McKinney District's Response to the Staff Report (filed Nov. 13, 2025).

with Staff's removal of certain labor expenses from the nonrecurring charges.¹² McKinney District requested that the Commission follow the regulation 807 KAR 5:006, Section 9,¹³ and 807 KAR 5:011, Section 10(2),¹⁴ and recalculate the nonrecurring charges to include all costs associated with providing the nonrecurring services, so that the beneficiary of the nonrecurring service pays the entire cost of providing the service.¹⁵

Second, subsequent to the issuance of the Staff Report, where Staff recommended the disallowance of test year wage recovery for board members, Lincoln County Fiscal Court prepared and provided documents formally approving compensation for each McKinney District board member.¹⁶

Lastly, McKinney District disagreed with Staff's recommendation to not recognize the rate review provided in this proceeding as satisfactory completion of the provision provided in the final Order in Case No. 2025-00022.¹⁷ As part of Case No. 2025-00022, the Commission required McKinney District to file an application for a general rate adjustment, an alternative rate adjustment, or tender a detailed explanation with

¹² McKinney District's Response to the Staff Report at 2.

¹³ 807 KAR 5:006 Section 9. Nonrecurring Charges. "A utility may make special nonrecurring charges to recover customer-specific costs incurred that would otherwise result in monetary loss to the utility or increased rates to other customers to whom no benefits accrue from the service provided or action taken. A utility desiring to establish or change a special nonrecurring charge shall apply for commission approval of the charge in accordance with the provisions of 807 KAR 5:011, Section 10."

¹⁴ 807 KAR 5:011 Section 10(2) "The proposed rate shall relate directly to the service performed or action taken and shall yield only enough revenue to pay the expenses incurred in rendering the service."

¹⁵ McKinney District's Response to Staff Report at 2.

¹⁶ McKinney District's Response to Staff Report 2-3.

¹⁷ 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 May 14, 2025), Order.

supporting documentation to show cause why a rate adjustment is unnecessary on or before June 30, 2026 to ensure that depreciation and debt service for Phases 1A and 1B of a water infrastructure improvement project are captured in the rates.¹⁸

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."¹⁹ 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

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.²⁰

¹⁸ McKinney District's Response to Staff Report 3-4.

¹⁹ *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).

²⁰ *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.

UNACCOUNTED-FOR WATER LOSS

The Commission 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.²¹ 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.

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>

Water Loss Surcharge. McKinney District currently charges a water loss reduction surcharge authorized in Case No. 2022-00400.²² McKinney District was authorized to assess a monthly surcharge of \$4.05 per customer for service rendered on and after

²¹ *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.

²² Case No. 2024-00400, Sept. 1, 2023 Order.

September 1, 2023, and continuing for 48 months or until the total amount of surcharge assessed equals \$362,362, whichever occurs first.²³ As of October 2025, McKinney District had \$181,298 in its surcharge account.²⁴

TEST PERIOD

The calendar year ended December 31, 2024, was used as the test year to determine the reasonableness of McKinney District's proposed water rates as required by 807 KAR 5:076, Section 9.²⁵

SUMMARY OF REVENUE AND EXPENSES

The table below summarizes McKinney District's pro forma income statement, derived from the pro forma operating statement in the Staff Report:²⁶

Description	Commission Staff's Report		
	Test Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 1,175,504	\$ (32,253)	\$ 1,143,251
Operating Expenses ()	(1,206,781)	118,162	(1,088,619)
Net Operating Income	(31,277)	85,909	54,632
Interest Income	7,933	0	7,933
Income Available to Service Debt	\$ (23,344)	\$ 85,909	\$ 62,565

²³ Case No. 2024-00400, Sept. 1, 2023, Order at 21, ordering paragraph 7.

²⁴ Case No. 2023-00194, *Electronic McKinney Water District Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring* (filed Nov. 19, 2025), October 2025 Surcharge and Water Loss Reports.

²⁵ 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.

²⁶ Summary taken from the Pro Forma Operating Statement found in the Staff Report at 9.

REVIEW AND MODIFICATION OF STAFF'S RECOMMENDATIONS

In its application, McKinney District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. Staff calculated a different revenue requirement based on additional pro forma adjustments.²⁷ Upon review of the Staff Report and McKinney District's responses to the Staff Report, the Commission determined that one additional adjustment is necessary to the revenue requirement. The correction results in a new revenue requirement calculation.

As noted above, McKinney District filed comments raising three issues regarding the Staff Report. First, the Commission does not find sufficient evidence to support McKinney District's argument that removing labor costs from nonrecurring charges fees is "in direct violation" of 807 KAR 5:006, Section 9,²⁸ nonrecurring charges, or 807 KAR 5:011, Section 10(2), which states the proposed rate shall relate directly to the service performed and shall yield only enough revenue to pay the expenses incurred in rendering the service.²⁹ Here, as it did in Case No. 2020-00141,³⁰ the Commission finds that "[i]t is unreasonable to allocate an expense already incurred as a cost of maintaining a system to a nonrecurring service." The Commission has generally excluded labor costs for labor performed during regular business hours, as McKinney District already recovers its

²⁷ Staff Report at 9.

²⁸ 807 KAR 5:006, Section 9 permits utilities to assess special nonrecurring charges to recover customer-specific costs that would otherwise cause a monetary loss or shift costs to other customers. The charge must be tariffed and applied uniformly, relate directly to the service or action taken, and recover only the expenses incurred.

²⁹ 807 KAR 5:011, Section 10(2): For nonrecurring charges, the proposed rate must relate directly to the service performed or action taken and recover only the expenses incurred to render that service.

³⁰ See Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), final Order at 20.

personnel's salaries through rates.³¹ Nonrecurring charges must be directly related to the actual cost incurred to provide the service not the day-to-day operation of the utility. The Commission finds McKinney District did not provide sufficient explanation or additional argument to support its position concerning removing labor expenses other than stating that doing so violates the two regulations.

Second, in the Staff Report, Staff initially recommended the disallowance of test year wage recovery for McKinney District's board members because Lincoln County Fiscal Court could not locate documentation approving the Commissioners' compensation.³² Subsequent to the issuance of the Staff Report, Lincoln County Fiscal Court prepared and provided documents formally approving wages for each of McKinney District's board members.³³ The Commission accepts the newly submitted documentation and authorizes recovery of the associated board members' wages. Using information for board meetings provided for the test year, this results in an increase to Salaries and Wages – Officers of \$10,300 from the Staff Report. In addition, the Commission finds that payroll tax expense should be adjusted accordingly to reflect the inclusion of Salaries and Wages – Officers.

Third, McKinney District disagreed with Staff's recommendation to not recognize the rate review provided in this proceeding as satisfactory completion of the provision provided in the final Order in Case No. 2025-00022. McKinney District argued that the application in this proceeding included a request to recover depreciation and debt service

³¹ Case No.2020-00141, Nov. 6, 2020 final Order.

³² Staff Report at 16-17.

³³ McKinney District Response to Staff Report, McKinney_Water_Board_Compensation.

associated with Phase 1A and Phase 1B construction projects. McKinney District argued that the requirement to file additional documents would impose an administrative burden and expense on McKinney District that is not necessary.³⁴ The Commission finds that the Application in this proceeding satisfies the provision provided in the final Order in Case No. 2025-00022. However, the Commission encourages McKinney District to continue monitoring its revenue sufficiency in order to ensure financial stability.

The Commission's complete pro forma, with the modification discussed above, is shown below.

³⁴ McKinney District Response to Staff Report.

Description	Test Year	Total Adjustments	Commission Staff's Pro Forma	Commission Approved Adjustments	Commission Approved Pro Forma
Operating Revenues					
Metered Retail Sales	\$ 1,105,847				
		\$ (16,395)	\$ 1,089,452	\$ -	\$ 1,089,452
Other Operating Water Revenue					
Miscellaneous Service Revenues	33,230	(33,230)	0	-	-
Other Revenue					
Nonrecurring Charges	7,166	19,608			
		2,924	29,698	-	29,698
Forfeited Discounts	22,540	0	22,540	-	22,540
Miscellaneous Income	3,690	(306)			
		(1,823)	1,561	-	1,561
Net 911 Receipts	3,031	(3,031)	0	-	-
Total Operating Revenues	1,175,504	(32,253)	1,143,251	-	1,143,251
Operation and Maintenance					
Salaries and Wages - Employees	276,237	(20,167)			
		11,295	267,365	-	267,365
Salaries and Wages - Officers	22,235	(10,940)	0	10,300	10,300
		(11,295)	0	-	-
Purchased Water	539,769	(106,256)			
		(48,179)	385,334	-	385,334
Water Sampling/Testing	7,970	0	7,970	-	7,970
Materials and Supplies					
Repair & Maint.	78,645	(29,749)		-	-
		(15,122)	33,774	-	33,774
Office expenses Other	29,398	(6,758)	22,640	-	22,640
Office Supplies	3,138	0	3,138	-	3,138
Postage Rental	824	0	824	-	824
Postage	9,672	0	9,672	-	9,672
Contractual Services - Accounting	7,130	0	7,130	-	7,130
Contractual Services - Legal	948	0	948	-	948
Contractual Service - Other	46,098	(15,960)	30,138	-	30,138
Transportation Expenses	26,476	0	26,476	-	26,476
Insurance - General Liability	6,657	0	6,657	-	6,657
Insurance - Workers Compensation	3,150	0	3,150	-	3,150
Insurance - Vehicle	2,014	0	2,014	-	2,014
Advertising	365	0	365	-	365
Bad Debts Expense	7,920	0	7,920	-	7,920
Misc. and General Expenses:					
Miscellaneous Expense	(2,530)	0	(2,530)	-	(2,530)
Utilities	17,368	(1,383)	15,985	-	15,985
Garnishment/Wages	3,740	(3,740)	0	-	-
Credit Card Processing Fees	13,803	0	13,803	-	13,803
Total	1,101,027	(258,254)	842,773	10,300	853,073
Amortization		3,333	3,333	-	3,333
Depreciation Expense	80,098	1,499			
		737			
		2,643			
		3,939			
		130,554	219,470	-	219,470
Taxes Other Than Income					
Payroll Taxes	23,066	(2,613)	20,453	788	21,241
Other Tax and License	2,590	0	2,590	-	2,590
Total Operating Expenses	1,206,781	(118,162)	1,088,619	11,088	1,099,707
Net Operating Income	(31,277)	85,909	54,632	(11,088)	43,544
Interest Income	7,933	0	7,933	-	7,933
Income Available to Service Debt	\$ (23,344)	\$ 85,909	\$ 62,565	\$ (11,088)	\$ 51,477

Reclassify Water Sales Revenue to Other Water Revenue. McKinney District proposed reclassifying \$19,302 from water sales revenue to other water revenue.³⁵ McKinney District stated that the revenue was generated from the assessment of Meter Re-Read, Delinquent Service, Service Investigation, and Pay Call charges.³⁶ Staff recommended accepting this adjustment because it meets the ratemaking criteria of being known and measurable.³⁷

The Commission finds that McKinney District's proposed adjustment is reasonable and should be accepted because these amounts are known and measurable and supported by the information in the case record.

Billing Analysis Adjustment. McKinney District's reported test year metered water sales of \$1,105,847.³⁸ 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 \$1,089,452.³⁹ Staff recommended 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.⁴⁰

³⁵ Application, Exhibit 3, References, Reference A.

³⁶ Application, Exhibit 3, References, Reference A.

³⁷ Staff Report at 10.

³⁸ 2024 Annual Report at 49.

³⁹ Application, Exhibit_4_McKinney_Billing_Analysis.xlsx.

⁴⁰ Staff Report at 10.

The Commission finds that McKinney District's proposed adjustment is reasonable and should be accepted because this adjustment reflects verifiable usage patterns and revenue data that were evaluated and normalized using the information provided in the record. The Commission finds that the methodology used to determine this adjustment is reasonable and consistent with regulatory practices.⁴¹

Miscellaneous Service Revenue. McKinney District proposed reclassifying \$33,230 originally reported as Other Water Revenue to Proceeds from Capital Contributions, a non-revenue account.⁴² McKinney District stated that the proceeds were generated from the assessment of Meter Connection/Tap-on charges.⁴³ As prescribed by the Uniform System of Accounts (USoA), Meter Connection fees are not considered revenue but are a Capital Contribution.⁴⁴ 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 recommended accepting the adjustment as known and measurable.⁴⁵

The Commission finds that McKinney District's proposed adjustment is reasonable because it is consistent with the USoA and should be accepted.

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

⁴¹ Staff Report at 10.

⁴² Application, Exhibit 3, References, Reference C.

⁴³ Application, Exhibit 3, References, Reference C.

⁴⁴ Uniform System of Accounts for Class A/B Water Districts, Accounting Instruction 19 and 33.

⁴⁵ Staff Report at 11.

Receipts of \$3,031.⁴⁶ As discussed above, McKinney District proposed reclassifying \$19,302 from Metered Retail Sales to Miscellaneous Income.⁴⁷ Staff recommended four adjustments that increase Other Revenues by \$17,372.⁴⁸ First, Staff noted that some components of revenues from nonrecurring charges were included in the reclassification amount as well as in Miscellaneous Income and reclassified \$19,608 to the Nonrecurring Charges account to include all nonrecurring charges revenues in one account.⁴⁹ Second, McKinney District provided the number of instances that each nonrecurring charge was performed during the test period,⁵⁰ as well as the cost justification sheets.⁵¹ Using the information provided by McKinney District, 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 \$2,924.⁵²

⁴⁶ Application, Exhibit 3, Statement of Adjusted Operations (SAO).

⁴⁷ Application, Exhibit 3, References, Reference A.

⁴⁸ Staff Report at 11.

⁴⁹ Staff Report at 11.

⁵⁰ McKinney District's Response to Staff's Second Request, Item 9.

⁵¹ 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.

⁵² Staff Report at 11.

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				<u>\$ 2,924</u>

Third, Staff determined that \$1,823 of items in the General Ledger Account Miscellaneous Income are non-revenue receipts and should have been removed.⁵³ The \$1,823 is comprised of \$1,058 for an insurance refund,⁵⁴ \$660 for a customer reimbursement for breaking a water line,⁵⁵ and the remaining \$105 for customer deposits.⁵⁶ Staff recommended 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.⁵⁷

Fourth, McKinney District also proposed to remove the \$3,031 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

⁵³ Staff Report's at 12.

⁵⁴ McKinney District's Supplemental Response to Staff's First Request, Item 1a, GENERAL_LEDGER_MCKINNNEY_2024.xlsx, at row 2927

⁵⁵ McKinney District's Supplemental Response to Staff's First Request, Item 1a, GENERAL_LEDGER_MCKINNNEY_2024.xlsx, at row 2911.

⁵⁶ McKinney District's Response to Staff's First Request, GENERAL_LEDGER_MCKINNNEY_2024.xlsx.

⁵⁷ Staff Report's at 12.

Payable.⁵⁸ Staff agreed with the methodology as the USoA prescribes that gross receipts taxes that should have be reported as tax collections payable and not included as revenues.⁵⁹ Staff recommended accepting this adjustment to decrease Other Water Revenue by \$3,031 as it is a known and measurable adjustment.⁶⁰

The Commission finds that Staff's recommendations are reasonable. Thus, the Commission finds that the revised nonrecurring charges set forth in Appendix B to this Order and the increase of \$2,924 to Other Water Revenue are reasonable and accepts both items.

The Commission further finds the exclusion of insurance proceeds, customer reimbursements, and customer deposits not expected to recur is reasonable and agrees with Staff's adjustment. The Commission finds that Staff's fourth recommended adjustment to remove the Net 911 Receipts from Other Water Revenue is reasonable because it is consistent with the USoA and should be accepted.

Salaries and Wages – Employees. McKinney District reported \$276,237 of expenses related to Salaries and Wages - Employees⁶¹ 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 \$255,213.⁶² McKinney District currently has two full-time office employees, three full-time field employees and one part-time field employee.⁶³

⁵⁸ Application, SAO, Reference D.

⁵⁹ Uniform System of Accounts for Class A/B Water Districts, Account 241 Tax Collections Payable.

⁶⁰ Staff Report at 11-13.

⁶¹ Application, Exhibit 3, Statement of Adjusted Operations.

⁶² Application, Exhibit 3, References, Reference E.

⁶³ Application, Exhibit 3, References, Reference E

McKinney District's test-year wages were effected by significant employee turnover that occurred during and after the test year.⁶⁴ McKinney District's Office Manager retired subsequent to the end of the test year and was replaced by an existing employee.⁶⁵ In addition, a part-time field employee commenced full-time employment on June 1, 2025.⁶⁶ Staff reviewed McKinney District's calculation and recalculated the amount. Staff recommended the Commission accept Staff's total decrease of \$20,167, to reflect the test-year expenses as shown below.⁶⁷

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 to Account 407 (Meeting fees Account). It was recorded as Commissioners' salaries.⁶⁸ McKinney District stated that the employee meeting fees follow the fees of the Board of Commissioners.⁶⁹ The President of the Board of Commissioners receives \$200 per meeting and all other commissioners receive \$150 per meeting.⁷⁰ 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".⁷¹ McKinney District also stated that the employee meeting fees are included in the monthly expense reports that are

⁶⁴ Application, Exhibit 3, References, Reference E.

⁶⁵ Application, Exhibit 3, References, Reference E.

⁶⁶ Application, Exhibit 3, References, Reference E.

⁶⁷ Staff Report at 13.

⁶⁸ McKinney District's Response to Staff's Second Request, Item 7a.

⁶⁹ McKinney District's Response to Staff's Second Request, Item 7c.

⁷⁰ McKinney District's Response to Staff's Second Request, Item 7c.

⁷¹ McKinney District's Response to Staff's Second Request, Item 7c.

reviewed and approved by the Board of Commissioners at each meeting.⁷² Since the meeting fees are being paid to its employees, Staff recommended reclassifying \$11,295 under Salaries and Wages – Employees Account from Salaries and Wages - Officers Account.⁷³

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>

McKinney District stated that \$3,740 of garnished wages were 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.⁷⁴ Staff agreed with this adjustment.

The Commission finds that the Staff's adjustments to McKinney District's wages are appropriate because the adjustments are based upon the current wage rates of McKinney District, reclassification of employee meeting fees, and removal of garnished wage costs, the Commission finds the overall adjustments are reasonable and supported by the evidence of record.

⁷² McKinney District's Response to Staff's Second Request, Item 7b.

⁷³ Staff Report at 14.

⁷⁴ Application, Exhibit 3, References, Reference E.

Salaries and Wages - Officers. McKinney District reported \$22,235 of expenses related to Salaries and Wages – Officers and proposed no adjustments.⁷⁵ As discussed above, Staff recommended a reclassification of \$11,295 for employee payments for attending meetings to Salaries and Wages – Employees.⁷⁶ McKinney District's commissioner salaries during the test year are the remaining \$10,940 after the reclass of employee payments.⁷⁷ 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 \$2,600.⁷⁸ McKinney District provided Lincoln County Fiscal Court minutes that approved the commissioners' appointments⁷⁹ and training records for all of its commissioners except Mike Reed.⁸⁰ 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.⁸¹ In its report, Staff recommended the Commission encourage all commissioners who have not attended training in the past 2 years, to attend as a refresher.⁸² At the time of the Staff Report, Staff could not verify proper pay

⁷⁵ Application, Exhibit 3, Statement of Adjusted Operations.

⁷⁶ Staff Report at 14.

⁷⁷ \$22,235 - \$11,295 = \$10,940.

⁷⁸ McKinney District's Response to Staff's First Request, Item 9, Board_OF_Commissioners.

⁷⁹ McKinney District's Response to Staff's First Request, Item 9c, McKinney_Water_District_Oaths.

⁸⁰ McKinney District's Response to Staff's First Request, Item 9d, Commissioners_Training.

⁸¹ McKinney District's Response to Staff's Second Request, Item 6b.

⁸² Staff Report at 16.

authorization as McKinney District stated that the Lincoln County Fiscal Court could not locate the commissioners' compensation documents.⁸³ 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."⁸⁴

Since McKinney District did not provide the pay authorization from the Lincoln County Fiscal Court, Staff recommended an adjustment to remove \$10,940 of expenses related to McKinney District's commissioners' salaries.⁸⁵ Staff recommended the Commission accept Staff's recommendation because it is known and measurable.⁸⁶

In its response to the Staff Report, McKinney District provided documents formally approving the annual wages for each McKinney District board members prepared by Lincoln County Fiscal Court.⁸⁷ Because the additional documentation submitted by McKinney District, which includes formal approval of the board member wages prepared by Lincoln County Fiscal Court, meets the requirements of KRS 74.020(6), the Commission finds McKinney District's Board of Commissioner salaries should be included for recovery through the revenue requirement. This results in an increase of \$10,300 from the Staff Report. The Commission finds that a fixed salary for the McKinney District's board members should be established by the Lincoln County Fiscal Court.

⁸³ McKinney District's Response to Staff's Second Request, Item 6a.

⁸⁴ KRS 74.020(6), Appointment of commissioner – Number – Terms – Removal – Vacancies – Organization – Bond – Compensation – Mandatory Training – Notice of Vacancy.

⁸⁵ Staff Report at 16.

⁸⁶ Staff Report at 16.

⁸⁷ McKinney District Response to Staff Report, McKinney_Water_Board_Compensation.

Purchased Water. McKinney District purchases water from Stanford Waterworks (Stanford) and Eubank Water System (Eubank).⁸⁸ McKinney District reported \$539,769 in purchased water expenses and proposed an adjustment to decrease its expenses by \$106,256.⁸⁹ During the test year, McKinney District purchased 109,202,000 gallons of water for resale from Stanford and 33,737,100 gallons from Eubank.⁹⁰ McKinney District stated that, upon completion of the water connection between McKinney District and Danville approved in Case No. 2025-00022,⁹¹ McKinney District will decrease purchases from Stanford by 63.62 percent and 40 percent from Eubank.⁹² Staff reviewed McKinney District's calculation and agreed with McKinney District's proposed reduction of \$106,256 and recommended the Commission accept McKinney District's proposed adjustment because it is known and measurable.⁹³

⁸⁸ Application, Exhibit 3 at 7.

⁸⁹ Application, Exhibit 3, Statement of Adjusted Operations.

⁹⁰ Application, Exhibit 3 at 7.

⁹¹ See Case No. 2025-00022, Mar. 28, 2025 final Order approved Phase 1B and May 14, 2025 final Order approved Phase 1A.

⁹² Application, Exhibit 3 at 7.

⁹³ Staff Report at 17.

Description	Stanford	Eubank	Danville	Total
Test Year Gallons Purchased	109,202,000	33,737,100		142,939,100
Times: (Reduction in gallons to be replaced by Danville)	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				\$ (106,256)

The Commission finds the adjustment is reasonable because the adjustment is supported by the evidence provided in the case record and should be accepted.

Excess Water Loss. In its application, McKinney District proposed adjustments to decrease Purchased Water Expense by \$48,163 and Purchased Power Expense by \$1,384⁹⁴ 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.⁹⁵ Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included for ratemaking purposes.⁹⁶ Staff reviewed McKinney District's calculation and determined an additional \$16 adjustment was required for Purchased Water Expense. Staff recommended the Commission accept Staff's adjustment, since the amounts reflect the limit to costs related to excess water loss to 15 percent.⁹⁷

⁹⁴ Application, Exhibit 3, SAO.

⁹⁵ 2024 Annual Water Report at 57.

⁹⁶ 807 KAR 5:066 (Water), Section 6(3) (Water Supply Measurement).

⁹⁷ Staff Report at 18.

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	\$ 16	\$ -	\$ 16

The Commission finds Staff's adjustments are reasonable and approves the adjustments because they are supported by the evidence of Purchased Water Expense and Purchased Power Expense provided in the case record exceeding the 15 percent water loss threshold for recovery in rates.

Materials and Supplies. McKinney District reported \$78,645 of expenses related to Materials and Supplies in the test period and proposed two adjustments.⁹⁸ 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.⁹⁹ Each of these assets were placed into service during the test year.¹⁰⁰ McKinney District stated it has removed these costs from the operating expenses and capitalized them to be depreciated over their estimated useful lives.¹⁰¹ McKinney District proposed a corresponding decrease to test-year depreciation expense of \$1,832 discussed in Depreciation Expense below.¹⁰²

⁹⁸ Application, Exhibit 3, Statement of Adjusted Operations.

⁹⁹ Application, Exhibit 3, References, Reference H.

¹⁰⁰ Application, Exhibit 3, References, Reference H.

¹⁰¹ Application, Exhibit 3, References, Reference H.

¹⁰² Application, Exhibit 3, References, Reference H.

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 the expense related to the costs of installations.¹⁰³ The reported costs of these installations totaled \$21,490 which included \$15,960 of contract labor and \$4,600 for 23 new meters.¹⁰⁴ 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.¹⁰⁵ McKinney District stated that the total cost of the new installations was \$36,612, and the additional costs from the reported amount were related to the wages, labor overheads, and other materials and supplies.¹⁰⁶ To capitalize the full amount of \$36,612, McKinney District reduced the test year Materials and Supplies by \$15,122, Contractual Service – Other expense by \$15,960, 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.¹⁰⁷ The Uniform 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.¹⁰⁸ McKinney District proposed a corresponding adjustment to test-year depreciation expense of \$753 discussed in Depreciation expense below. Staff agreed with McKinney District's calculation and recommended accepting McKinney District's

¹⁰³ Application, Exhibit 3, References, Reference I.

¹⁰⁴ Application, Exhibit 3, References, Reference I.

¹⁰⁵ Application, Exhibit 3, References, Reference I.

¹⁰⁶ Application, Exhibit 3, References, Reference I.

¹⁰⁷ Application, Exhibit 3, References, Reference I.

¹⁰⁸ USoA, Accounting Instructions 19 and 33

proposed reductions of \$29,749 and \$15,122 because the amounts are known and measurable and correctly capitalized costs for capital investments.¹⁰⁹

The Commission finds McKinney District's adjustments reasonable to properly capitalize known and measurable expenses as prescribed by the USoA, and because the amounts are based on reliable information in the record and reflect values that have either already occurred or can be determined with reasonable certainty and therefore accepts the adjustment.

Office Expense Other. McKinney District reported \$29,398 of expenses related to Office Expense – Other and proposed an adjustment to reduce its expenses by \$6,758.¹¹⁰ McKinney District stated that during the test year it utilized Software Solutions for its billing software system at an annual maintenance cost of \$5,133.¹¹¹ McKinney District entered into a contract with Ampstun Corp. (Ampstun) during the test year to replace the services provided by Software Solutions.¹¹² McKinney District stated that the Ampstun contract required a one-time \$18,500 billing software development fee and an ongoing annual maintenance fee of \$3,000.¹¹³

McKinney District reported \$4,625 of the development fee in the test year as Materials and Supplies Expense.¹¹⁴ In support of its proposed adjustment, McKinney District stated that pro forma operations were revised to (1) decrease annual software

¹⁰⁹ Staff Report at 20.

¹¹⁰ Application, Exhibit 3, SAO.

¹¹¹ Application, Exhibit 3, References, Reference J.

¹¹² Application, Exhibit 3, References, Reference J.

¹¹³ Application, Exhibit 3, References, Reference J.

¹¹⁴ Application, Exhibit 3, References, Reference J.

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.¹¹⁵ McKinney District proposed a corresponding adjustment to test-year depreciation expense. Staff reviewed McKinney District's general ledger¹¹⁶ calculation and the supporting document.¹¹⁷ Staff finds the proposed adjustment to be reasonable and recommended that the Commission accept McKinney District's proposed adjustment.¹¹⁸

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

The Commission finds McKinney District's proposed adjustment is reasonable because it is known and measurable and therefore, accepts the adjustment.

Contractual Services – Other. McKinney District reported \$46,098 of expenses related to Contractual Services – Other.¹¹⁹ McKinney District stated that this account included \$15,960 of contract labor costs for the installation of 23 new 5/8-inch meter connections and two new 1-inch meter connections.¹²⁰ Accordingly, McKinney District

¹¹⁵ Application, Exhibit 3, References, Reference J.

¹¹⁶ McKinney District's Response to Staff's First Request, Item 1a, 2024 General Ledger, Account Number 415

¹¹⁷ McKinney District's Response to Staff's Second Request, Item 3a, McKinney_Response_To_KYPSC_DR2

¹¹⁸ Staff Report at 21.

¹¹⁹ Application, Exhibit 3, Statement of Adjusted Operations

¹²⁰ Application, Exhibit 3, References, Reference I.

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 agreed McKinney District's adjustment. Staff recommended the Commission accept McKinney District's proposed adjustments because they are known and measurable.¹²¹

The Commission finds McKinney District's adjustment reasonable to properly capitalize known and measurable expenses as prescribed by the USoA, and because the amounts are based on reliable information in the record and reflect values that have either already occurred or can be determined with reasonable certainty, and therefore, accepts the adjustment.

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 \$3,333.¹²² McKinney District estimated rate case expense of \$10,000.¹²³ 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.¹²⁴ McKinney District proposed to amortize the rate case expense over three years.¹²⁵ Staff agreed with McKinney District's methodology because utilities are expected to file for a rate adjustment every three to five years. Staff reviewed

¹²¹ Staff Report at 22.

¹²² Application, Exhibit 3, Statement of Adjusted Operations.

¹²³ Application, Exhibit 3, References, Reference K.

¹²⁴ McKinney District's Response to Staff's First Request, Item 4.

¹²⁵ Application, Exhibit 3, References, Reference K

the contract and recommended the Commission accept McKinney District's proposed adjustment because it is known and measurable.¹²⁶

The Commission finds McKinney District's adjustments are reasonable and should be accepted because the amounts are supported by known and measurable information in the case record.

Depreciation Expense. McKinney District reported \$80,098 of expenses related to Depreciation and proposed five adjustments.¹²⁷ First, McKinney District 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.¹²⁸ 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.¹²⁹ 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.¹³⁰ 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 recommended an increase to depreciation expense of \$1,499 which is \$333 decrease from McKinney District's proposed adjustment.

¹²⁶ Staff Report at 22.

¹²⁷ Application, Exhibit 3, SAO.

¹²⁸ Application, Exhibit 3, References, Reference H.

¹²⁹ McKinney District's Response to Staff's First Request, Item 17b.

¹³⁰ 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.

Second, McKinney District proposed to increase Depreciation Expense by \$753.¹³¹ 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.¹³² 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 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, which is a \$16 decrease from McKinney District's proposed adjustment. Staff agreed with McKinney District's depreciation of the meter installation costs over 45 years.¹³³

Third, as discussed above in Office Expense – Other, McKinney District proposed an adjustment to increase Depreciation Expense by \$2,643 to reflect the capitalization of the billing software development fee.¹³⁴ 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 \$2,643.¹³⁵ Staff reviewed McKinney District's calculation and supporting documentation and agreed with the adjustment.¹³⁶

¹³¹ Application, Exhibit 3, SAO.

¹³² Application, Exhibit 3, References, Reference I.

¹³³ Application, Exhibit 3, References, Reference I, Chart on page 19.

¹³⁴ Application, Exhibit 3, References, Reference J.

¹³⁵ Application, Exhibit 3, References, Reference J, Chart on page 20.

¹³⁶ Staff Report at 24.

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).¹³⁷ The Commission had approved those proposed useful lives in its final Order dated September 1, 2023.¹³⁸ 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.¹³⁹ McKinney District stated that the appropriate 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 to correct the depreciation expenses on these assets in pro forma operations due to the change in useful life.¹⁴⁰ Staff reviewed McKinney District's calculation and proposed adjustment, and agreed with the proposed adjustment.¹⁴¹

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 \$6,465,746.¹⁴² McKinney District stated the

¹³⁷ Application, Exhibit 3, References, Reference L.

¹³⁸ Application, Exhibit 3, References, Reference L.

¹³⁹ Application, Exhibit 3, References, Reference L.

¹⁴⁰ Application, Exhibit 3, References, Reference L.

¹⁴¹ Staff Report at 25.

¹⁴² Application, Exhibit 3, References, Reference M.

project is scheduled to be completed on July 15, 2026.¹⁴³ 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. McKinney District explained the reason behind the difference was due to two things; a change in projected useful life and changes in distribution of costs.¹⁴⁴ Staff noted 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 Expense, as discussed above. Because the debt service payments for the project are set to start in 2026, 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 recommended including the associated costs and cost benefits from the project as well. Staff agreed with McKinney District's calculation and recommended Commission accept McKinney District's proposed adjustment.¹⁴⁵ This calculation also took into account that the Commission accepts this filing as having satisfied the requirements set for in the 2025-00022 final Order.

¹⁴³ McKinney District's Response to Staff's First Request, Item 21a & b, 21_McKinney_Response_to_KPSC_DR1,_Item_21,_Spears_email.

¹⁴⁴ McKinney District's Response to Staff's First Request, Item 21a and b, 21_McKinney_Response_to_KPSC_DR1,_Item_21,_Spears_email.

¹⁴⁵ Staff Report at 26.

Asset Class	Original Cost	NARUC recommended Service Lives	Test Year Depreciation	Staff Calculated Depreciation	Deprecitaion 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

The Commission finds Staff's adjustments to Depreciation Expense as presented in the Staff Report are reasonable and should be accepted because the amounts are supported by known and measurable information in the record.

Payroll Taxes. McKinney District reported \$23,066 of expenses related to Payroll Taxes and proposed a reduction of \$3,542.¹⁴⁶ 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 results in pro forma test year amount of \$20,590. Staff recommended the Commission accept Staff's adjustment as it is known and measurable.¹⁴⁷

¹⁴⁶ Application, Exhibit 3, Statement of Adjusted Operations.

¹⁴⁷ Staff Report at 27.

Description	Amount
Salaries and Wages - Employees	\$ 267,365
Salaries and Wages - Officers	10,300
Total Salaries and Wages	277,665
Times: 7.65 Percent FICA Rate	7.65%
Commission Calculated Pro Forma Payroll Taxes	21,241
Staff Report Amount ()	(20,453)
Commission Adjustment	\$ 788

As discussed above in Salaries and Wages – Officers section above, the Commission is including \$10,300 of salaries in the revenue requirement. This results in an increase of \$788 as shown in the table above. The Commission finds the revised amount is reasonable and should be accepted as the amounts are known and measurable because they are based on reliable information in the record and reflect values that have either already occurred or can be determined with reasonable certainty.

SUMMARY OF ADJUSTMENTS

Based upon the Commission's findings and modifications discussed above, the following table summarizes McKinney District's adjusted pro forma:

Description	Commission Staff's Pro Forma	Commission Approved Adjustments	Commission Approved Pro Forma
Total Operating Revenues	\$ 1,143,251	\$ -	\$ 1,143,251
Total Operating Expenses ()	(1,088,619)	11,088	(1,099,707)
Net Operating Income	54,632	(11,088)	43,544
Interest Income	7,933	-	7,933
Income Available to Service Debt	\$ 62,565	\$ (11,088)	\$ 51,477

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;¹⁴⁸ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense. The table below reflects Staff's, and the Commission approved calculated revenue requirement.

Description	Commission Staff Report	Commission Approved
Pro Forma Operating Expenses	\$1,088,619	\$1,099,707
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	1,418,967	1,430,055
Other Revenue ()	(53,799)	(53,799)
Interest Income ()	(7,933)	(7,933)
Revenue Required From Water Sales	1,357,235	1,368,323
Revenue from Sales at Present Rates ()	(1,089,452)	(1,089,452)
Required Revenue Increase / (Decrease)	\$ 267,783	\$ 278,871
Percentage Increase / (Decrease)	24.58%	25.60%

¹⁴⁸ 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).

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 2028.¹⁴⁹ Staff agreed the methodology McKinney District proposed is reasonable and recommended the Commission accept McKinney District's proposed average annual principal and interest payments.¹⁵⁰ 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 120 percent of its average annual debt payments, or \$54,162.¹⁵¹ Staff agreed the methodology McKinney District proposed is reasonable and recommended the Commission accept McKinney District's proposed additional working capital.¹⁵²

¹⁴⁹ Application, Exhibit 3, Schedule C, Debt Service Schedule.

¹⁵⁰ Staff Report at 28.

¹⁵¹ Application, Exhibit 3, Calculation of Overall Revenue Requirement and Required Revenue Increase.

¹⁵² Staff Report at 29.

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>

The Commission finds McKinney District's calculated Average Interest and Principal Payments of \$270,808 and Additional Working Capital of \$54,162 should be included in McKinney District's Revenue Requirement because the DSC methodology allows for the recovery of the principal and interest payments and Additional Working Capital is a direct result of the calculated Annual Debt Principal and Interest payments.

RATE DESIGN

McKinney District proposed to increase all of its monthly retail water service rates by 25.55 percent across the board in its application.¹⁵³ McKinney District stated that it did not file a cost-of-service study (COSS) at this time, considering there have been no material changes in the water system that would cause a new COSS to be prepared.¹⁵⁴ McKinney District stated that it was unable to locate a copy of the most recent COSS

¹⁵³ Application, Exhibit 3, Schedule B.

¹⁵⁴ McKinney District's Response to Staff's First Request, Item 11a.

performed.¹⁵⁵ McKinney District also stated that it would consider preparing a new COSS if material changes in customer usage patterns were to occur.¹⁵⁶

During review, a discrepancy concerning the 2-inch Meter Minimum bill was discovered. An error in the calculation of the 2-inch Meter Minimum Bill was applied in the final Order in McKinney District's last rate case.¹⁵⁷ In that case, the approved rate for the 2-inch Minimum Bill should have been an increase of \$9.68, from \$164.36 to \$174.12, but instead an increase of \$2.95 was applied for a Commission approved rate of \$167.31. That error was then carried forward as the basis for the rate in one Purchased Water Adjustment case.¹⁵⁸ Applying the revenue requirement allocation across the board as accepted by the Commission in the absence of a COSS, the cost of purchasing 20,000 gallons should be approximately equivalent across meter sizes, and currently, as the result of the historical error described above, there is a cost discrepancy between the 2-inch Meter and the smaller meter sizes.

The Commission finds that the historical error should be corrected by increasing the 2-inch Meter minimum bill by an additional \$8.56 after applying the across- the- board rate increase. This would align the 2-inch Meter rate schedule with McKinney District's rate schedules for the smaller meter sizes. The Commission notes that this correction results in a fair, just and reasonable rate allocation of the revenue requirement.

¹⁵⁵ McKinney District's Response to Staff's First Request, Item 11d.

¹⁵⁶ McKinney District's Response to Staff's First Request, Item 11b and 11c.

¹⁵⁷ Case No. 2022-00400, Sept. 1, 2023 final Order, Appendix at 1.

¹⁵⁸ Case No. 2023-00344, Nov. 30, 2023 final Order, Appendix B.

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.¹⁵⁹ The Commission agrees with the across-the-board method proposed by McKinney District and approved the allocation of the revised \$278,871 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 approved by the Commission, and will produce sufficient revenues from water sales to recover the \$1,368,323 revenue required from rates, an approximate 25.60 percent increase. The monthly water bill for a typical residential customer, using 4,281 gallons per month with a 5/8 x 3/4 Inch Meter, will increase by \$12.10 from \$47.31 to \$59.41, or approximately 25.58 percent.

Nonrecurring Charges and Meter Connection Charges. McKinney District provided updated cost justification information for the nonrecurring charges.¹⁶⁰ In Case No. 2022-00400, the Commission previously removed labor expenses from McKinney District's nonrecurring charges.¹⁶¹ Consistent with the determination in Case No. 2022-00400, labor expenses were removed from the updated cost justification sheets, which

¹⁵⁹ 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).

¹⁶⁰ 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.

¹⁶¹ Case No. 2022-00400, Sept. 1, 2023 final Order at 7-8.

included an increased transportation cost, resulting in an increase to the charges as outlined in the table below.¹⁶²

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

The Commission finds that the Staff's recommended increases to the Nonrecurring Charges are appropriate considering the provided cost justification¹⁶³ supports the increase and the amount meets the ratemaking criteria of being known and measurable. Thus, the Commission finds the revised nonrecurring charges set forth in Appendix A are fair, just and reasonable.

Additionally, 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.¹⁶⁴ Staff reviewed the information provided by McKinney District and recommended that the Commission approve an increase to the meter connection charges as shown in the table below, because the higher rates are based on known and measurable adjustments provided in the supporting documentation.¹⁶⁵ The Commission

¹⁶² McKinney District's Response to Staff's First Request, Item 14.

¹⁶³ 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.

¹⁶⁴ McKinney District's Response to Staff's First Request, Item 20.

¹⁶⁵ McKinney District's Response to Staff's First Request, Item 20.

has reviewed the information pertaining to Meter Connection charges and finds that the increase is reasonable and should be accepted as it is supported by documentation provided by McKinney District.

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

Leak Adjustment Policy. According to the billing analysis submitted by McKinney District, it offers leak adjustments to customers. However, McKinney District does not have the leak adjustment policy in its tariff. Therefore, the Commission finds that McKinney District should make a tariff filing to include its leak adjustment policy in the tariff.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Staff Report, along with the above stated modifications, are supported by the evidence of record and are reasonable. By applying the DSC method to McKinney District's pro forma operations results in an Overall Revenue Requirement of \$1,430,055 and that a \$278,871 revenue increase or 25.60 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement. The rates contained in Appendix B to this Order are fair, just and reasonable based on the evidence in this record.

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 McKinney District are denied.

3. The water service rates set forth in Appendix B to this Order are approved for service rendered by McKinney District on or after the date of service of this Order.


4. Within 20 days of the date of service of this Order, McKinney District 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.

5. Within 20 days of the date of service of this Order, McKinney District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth its leak adjustment policy.

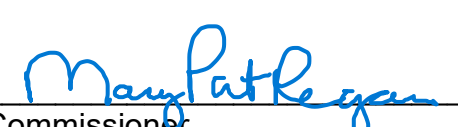
6. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director



Case No. 2025-00145

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00145 DATED DEC 4 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 AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00145 DATED DEC 4 2025

Monthly Rates

5/8 X 3/4-Inch Meter

First	1,000 Gallons	\$20.07	Minimum Bill
Next	2,000 Gallons	\$0.01272	Per Gallon
Next	7,000 Gallons	\$0.01085	Per Gallon
Over	10,000 Gallons	\$0.00995	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$67.21	Minimum Bill
Next	5,000 Gallons	\$0.01085	Per Gallon
Over	10,000 Gallons	\$0.00995	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$220.96	Minimum Bill
Over	20,000 Gallons	\$0.00995	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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