

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG SANDY WATER)
DISTRICT FOR AN ADJUSTMENT IN RATES) CASE NO. 2012-00152
PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

ORDER

Pursuant to 807 KAR 5:076, Big Sandy Water District ("Big Sandy District") applied for an adjustment of rates for water service. By this Order, the Commission establishes rates that will produce additional annual revenues of \$119,436, or a 5.06 percent increase over normalized test-period revenues from water sales of \$2,361,476. These rates will increase the monthly bill of an average customer from \$32.90 to \$35.03, or approximately 6.47 percent.¹

Big Sandy District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 4,538 customers in Boyd, Carter, Johnson, and Lawrence counties, Kentucky.²

On April 24, 2012, Big Sandy District filed with the Commission its application for an adjustment of its rates for water service. Using its historical operations for the calendar year ending December 31, 2010, and adjusting for known and measureable changes, Big Sandy District proposed rates that would produce additional revenues

¹ The average Big Sandy District customer uses 3,890 gallons of water monthly.

² *Annual Report of Big Sandy Water District to the Public Service Commission for the Calendar Year Ended December 31, 2011* ("2011 Annual Report") at 5 and 27.

from water sales of \$250,499, an increase of 11.7 percent over normalized revenues from water sales of \$2,136,489.³

On July 16, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate adjustment and Big Sandy District's operations during the test year. It found that Big Sandy District's pro forma operating expenses were \$2,141,029. Using the debt service coverage methodology to determine Big Sandy District's total revenue requirement, it recommended that the water district be permitted rates that produce annual revenues from water sales of \$2,480,912.

On July 19, 2012, Big Sandy District advised the Commission in writing that it accepted the findings and recommendations of the report and that the matter should be submitted to the Commission for decision based upon the existing record. Pursuant to the terms of the Commission's Order of June 7, 2012, this case stood submitted for decision upon receipt of Big Sandy District's written notice.

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

1. Except where they conflict with the findings contained in the Order, the findings contained in Commission Staff's report are supported by the evidence of record, are reasonable and should be adopted.

³ Big Sandy District's application does not reflect a recent increase in the cost of water purchased from the city of Kenova, West Virginia. On April 25, 2012, Big Sandy District executed an agreement with Kenova in which it agreed to an increase in Kenova's wholesale water service rate from \$1.79 to \$2.55 per 1,000 gallons. Big Sandy District subsequently applied and was granted a rate adjustment pursuant to 807 KAR 5:068 to reflect the increased cost of purchased water. Case No. 2012-00161, Purchased Water Adjustment Filing of Big Sandy Water District (Ky. PSC May 18, 2012). This increase was expected to produce approximately \$172,189 to cover the increased cost of purchased water.

2. The calendar year ending December 31, 2010 should be used as the test period to determine the reasonableness of Big Sandy District's existing and proposed rates.

3. Based upon pro forma test-period operations, Big Sandy District's pro forma annual revenue from Water Sales, Other Operating Revenue and Interest Income, is \$2,436,448.⁴ Approximately \$2,361,476 of this revenue is from water sales.

4. Based upon pro forma test-period operations, Big Sandy District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$2,141,029.⁵

5. Big Sandy District's average annual principal and interest payment on its Rural Development ("RD") long-term debt for the three-year period from 2012 to 2014 is \$124,227.

6. Big Sandy District's average annual principal and interest payment on its Kentucky Infrastructure Authority ("KIA") and Kentucky Rural Water Finance Corporation ("KRWFC") long-term debt for the three-year period from 2012 to 2014 is \$63,706 and \$177,915, respectively.

⁴ \$2,361,476 (Operating Revenues-Water Sales) + \$71,563 (Other Operating Revenues) + \$3,409 (Interest Income) = \$2,436,448.

⁵ This amount does not include \$76,660 in purchased water expenses that Big Sandy District incurred during the test period. During the test period, Big Sandy District experienced unaccounted-for water loss of 21.31 percent. "Unaccounted-for water loss" equals the difference of the total amount of water produced and purchased and the sum of water sold, water used for fire protection purposes, and water used in treatment and distribution operations (e.g., backwashing filters, line flushing). 807 KAR 5:066, Section 6(3), provides that "for rate making purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of the total water produced and purchased, excluding water used by a utility in its own operations." We have also excluded \$4,491 of purchased power expenses to eliminate the purchased power expense associated with the cost of pumping excess water loss.

7. Given that Big Sandy District is a water district, the use of debt service coverage methodology to determine its total revenue requirement is appropriate.

8. The use of a debt service coverage ratio of 1.2x for the RD debt and a debt service coverage ratio of 1.1x for the KIA and KRWFC debt should be used to determine Big Sandy District's revenue requirement.

9. Applying the appropriate debt service coverage ratios to Big Sandy District's average debt service requirement for the period from 2012 to 2014 produces a total revenue requirement of \$2,555,884, or \$119,436 more than Big Sandy District's pro forma annual revenues of \$2,436,448.

10. Based upon normalized test-period sales, Big Sandy District's proposed rates will produce total annual revenues from water sales of \$2,386,988. When other test-period sources of revenues are considered, Big Sandy District's proposed rates will produce total annual revenues of \$2,461,960.⁶

11. Big Sandy District's proposed rates will produce a level of revenue that is insufficient to meet the water district's reasonable operating expenses and to service its debt.

12. Based upon normalized test-period water sales, the rates set forth in the Appendix to this Order will produce annual revenues from water sales of \$2,480,912 and result in total annual revenues of \$2,555,884.⁷

13. The rates set forth in the Appendix to this Order reflect Big Sandy District's cost of providing service to its customers. These rates are supported by a cost-of-

⁶ \$2,386,988 (Operating Revenues-Water Sales) + \$71,563 (Other Operating Revenues) + \$3,409 (Interest Income) = \$2,461,960.

⁷ \$2,480,912 (Operating Revenues-Water Sales) + \$71,563 (Other Operating Revenues) + \$3,409 (Interest Income) = \$2,555,884 (Total Revenue Requirement).

service study whose methodology is consistent with utility industry standards and generally accepted ratemaking practices.

14. The rate design reflected in the rates set forth in the Appendix to this Order will result in the elimination of a minimum charge and the assessment of a volumetric charge only for wholesale water service to Overland Development, Inc. This action is consistent with general ratemaking principles.⁸

15. The rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved for service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. Except where they contradict or conflict with the findings contained in this Order, the findings contained in Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

2. Big Sandy District's proposed rates are denied.

3. The rates set forth in the Appendix to this Order are approved for water service that Big Sandy District renders on and after the date of this Order.

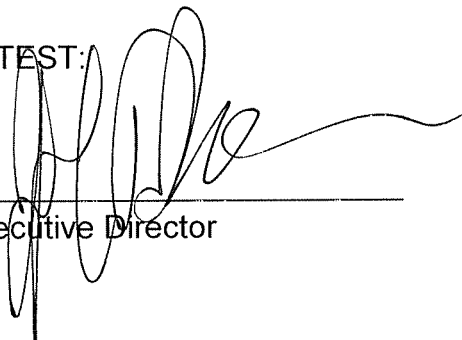
4. Within 20 days of the date of this Order, Big Sandy District shall file revised tariff sheets with the Commission setting forth the rates approved in this Order.

⁸ American Water Works Ass'n, Principles of Water Rates, Fees and Charges, 236-237 (5th Ed. 2000).

By the Commission

ENTERED
AUG 24 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00152 DATED **AUG 24 2012**

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

Monthly Water Rates

5/8" X 3/4" Meter

First	2,000 Gallons	\$23.41	Minimum Bill
Next	8,000 Gallons	6.15	per 1,000 Gallons
Next	20,000 Gallons	5.67	per 1,000 Gallons
Next	20,000 Gallons	5.25	per 1,000 Gallons
Over	50,000 Gallons	5.02	per 1,000 Gallons

1" Meter

First	10,000 Gallons	\$72.61	Minimum Bill
Next	20,000 Gallons	5.67	per 1,000 Gallons
Next	20,000 Gallons	5.25	per 1,000 Gallons
Over	50,000 Gallons	5.02	per 1,000 Gallons

1 1/2" Meter

First	30,000 Gallons	\$186.01	Minimum Bill
Next	20,000 Gallons	5.25	per 1,000 Gallons
Over	50,000 Gallons	5.02	per 1,000 Gallons

2" Meter

First	50,000 Gallons	\$291.01	Minimum Bill
Over	50,000 Gallons	5.02	per 1,000 Gallons

3" Meter

First	100,000 Gallons	\$542.01	Minimum Bill
Over	100,000 Gallons	5.02	per 1,000 Gallons

4" Meter

First	200,000 Gallons	\$1,044.01	Minimum Bill
Over	200,000 Gallons	5.02	per 1,000 Gallons

Wholesale Customer

Overland Development	\$4.65	Per 1,000 Gallons
Cannonsburg Water District	4.65	Per 1,000 Gallons

Mr. Jimmy Blanton
Superintendent
Big Sandy Water District
18200 Kentucky Route #3
Catlettsburg, KY 41129