

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAVES COUNTY WATER)	
DISTRICT FOR AN ADJUSTMENT IN RATES)	
PURSUANT TO THE ALTERNATIVE RATE)	CASE NO. 2012-00278
FILING PROCEDURE FOR SMALL UTILITIES)	

ORDER

Graves County Water District (“Graves District”) has applied to adjust its rates for water service. By this Order, the Commission approves a two-phase rate increase that will eventually produce additional annual revenues of \$215,409, a 23.86 percent increase over normalized test-year revenues for water sales of \$902,733.

On June 28, 2012, Graves District applied, pursuant to 807 KAR 5:076, for a two-phase rate adjustment.¹ It proposes a single schedule of rates for all customers. Currently, Graves District has four rate schedules. Each schedule applies to a different and distinct geographical area of the water district and is a legacy of four water districts that served the area prior to their merger in 2008 to create Graves District.² As a result

¹ Graves District submitted its Application on June 28, 2012. On July 5, 2012, it requested a deviation from 807 KAR 5:076, Section 8, to permit its use of a test year ending December 31, 2010. That regulation provides that when alternative rate filing procedures are used, “[t]he reasonableness of the proposed rates shall be determined using a twelve (12) month historical test period, adjusted for known and measureable changes, that coincides with the reporting period of the applicant’s annual report for the immediate past year.” At the time of filing of its Application for rate adjustment, Graves District had filed an annual report for the year ending December 31, 2011. On July 18, 2012, the Commission granted Graves District’s request for deviation and accepted the Application for filing purposes as of that date. No person has sought to intervene in this proceeding.

² Graves District is the product of the merger of Consumers Water District, Fancy Farm Water District, Hardeman Water District, and South Graves Water District. The Commission approved their voluntary merger on May 21, 2008. See Case No. 2007-00496, *Joint Application of Consumers Water District, Fancy Farm Water District, Hardeman Water District, and South Graves Water District for Approval of Merger and Formation of the Graves County Water District* (Ky. PSC May 21, 2008).

of these varying rate schedules, the effect of the first phase of the proposed rate adjustment on Graves District's customers is varied. Approximately three-quarters of Graves District's customers would experience an increase in rates.³ Upon implementation of the proposed Phase I rates, a customer who uses 5,000 gallons of water monthly would pay a monthly bill of \$27.49. When the proposed Phase II rates are implemented, this customer's monthly bill would increase to \$29.37, or approximately 6.8 percent more than the Phase I rates. Graves District proposes to place Phase II rates into effect upon the closing date of Kentucky Infrastructure Authority ("KIA") Loan No. B11-02.⁴

In its Application, Graves District also requests permission from the Commission to restate its utility plant in service to its original cost, to change the depreciable lives assigned to certain assets, and to use the whole-life method to calculate depreciation.⁵

On August 8, 2012, Commission Staff issued a report of its findings and recommendations in which it agreed with Graves District's statement of historical operations and proposed adjustments and recommended approval of the proposed rates. On August 10, 2012, Graves District advised the Commission of its acceptance of the findings and recommendations of the report and waived its right to a hearing in

³ The table below provides a comparison of the monthly bill of a Graves District customer who uses 5,000 gallons of water under the present rates and the Phase I rates.

Predecessor District	Current Bill	Bill At Phase I Rates	Increase	Percent
South Graves	\$34.86	\$27.49	\$(7.37)	-21.14
Hardeman	\$21.35	\$27.49	\$ 6.14	28.76
Fancy Farm	\$23.15	\$27.49	\$ 4.34	18.75
Consumers	\$20.86	\$27.49	\$ 6.63	31.78

⁴ Graves District, in its Application, and Commission Staff, in its Report, refer to the closing date of the KIA loan, but do not define that term. The term does not appear in the loan agreement.

⁵ App., Attach. D at 5.

this matter. Pursuant to the terms of the Commission's Order of July 18, 2012, this case stood submitted for decision.

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.

2. Graves District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 3,181 customers in Carlisle and Graves Counties, Kentucky.⁶

3. The calendar year ending December 31, 2010 should be used as the test year to determine the reasonableness of Graves District's proposed rates.

4. Based upon pro forma test-period operations, Graves District's pro forma annual revenue is \$965,545.⁷ Approximately \$902,733 of this revenue results from water sales.

⁶ *Annual Report of Graves County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2011* at 5, 27.

⁷ \$902,733 (Revenue from Water Sales) + \$55,913 (Other Operating Revenue) + \$6,899 (Interest and Dividend Income) = \$965,545. Other Operating Revenue includes forfeited discounts and miscellaneous service revenue.

5. Based upon pro forma test-period operations, Graves District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$1,061,690.⁸

6. Based upon a three-year average of Graves District's existing debt obligations, Graves District has annual total debt payments of \$119,264.⁹

7. Based upon pro forma test-period operations as adjusted for known and measurable changes and its debt obligations, Graves District's total overall revenue requirement is \$1,180,954.

⁸ This amount does not include \$17,003 in expenses related to the purchase and treatment of water that Graves District incurred during the test period. During the test period, Graves District experienced unaccounted-for water loss of 21.19 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."

The adjustment for known and measurable changes includes a reduction in Contractual Services expense of \$35,016, which is expected to occur when Graves District completes the installation of Automated Meter Infrastructure ("AMI") equipment. Once this equipment is operational, this equipment is expected to eliminate the need for monthly meter reading and thus reduce contractual service costs. In its Application, Graves District reported that the AMI equipment would be fully installed and operational as of December 31, 2013. App. Attach. E at 1. As of February 16, 2012, Graves District had purchased 2150 meters for installation. The Commission has adjusted test-period operations to reflect these savings as well as depreciation expense associated with the AMI equipment. This action is consistent with prior Commission practice. See, e.g., Case No 94-316, *Application of Kenton County Water District No. 1 (A) For Authority to Issue Parity Revenue Bonds in the Approximate Amount of \$15,120,000; (B) A Certificate of Convenience and Necessity for the Construction of a New Ohio River Pump Station at a Cost of Approximately \$13,500,000; and (C) Notice of an Adjustment of Rates* (Ky. PSC June 1, 1995) (establishing rates based upon expenses and savings that result from water district facilities for which a Certificate of Public Convenience and Necessity has been issued but that have not yet been constructed).

⁹ This amount includes debt payments for KIA Loan B11-02. The Commission has previously authorized Graves District to enter this loan. See Case No. 2011-00390, *Application of Graves County Water District for Authority to Enter Into a Loan Agreement With the Kentucky Infrastructure Authority* (Ky. PSC Nov. 3, 2011). As of May 25, 2012, Graves District has already drawn approximately \$365,000 on this loan and, pursuant to the terms of its agreement with KIA, must make interest payments on this amount. Graves District must make principal and interest payments within a year of completion of the AMI equipment installation. Kentucky Infrastructure Authority Assistance Agreement Project B11-02 (Nov. 1, 2011), Ex. A at 2. This action is consistent with prior Commission practice that has included in revenue requirement determination debt service payments on debt whose issuance has been authorized but that has not yet been issued. See, e.g., Case No 94-316, *Kenton County Water District No. 1* (Ky. PSC June 1, 1995).

8. Graves District's current rates will not produce revenues sufficient to meet Graves District's reasonable operating expenses and service Graves District's debt.

9. Graves District requires additional revenues of \$215,409 from its rates for water sales.

10. Graves District proposes to adjust its rates in two phases. It proposes to adjust rates immediately to produce additional annual revenues from water sales of approximately \$145,526, an increase of 16.12 percent over test-period revenues from water sales. In Phase II, which would begin upon "the closing date" of KIA Loan B11-02 and completion of the installation of advanced metering infrastructure ("AMI") equipment throughout its distribution system, the proposed rates will produce additional annual revenues from water sales of approximately \$69,883.

11. No evidence exists that the phased implementation of Graves District's proposed rates will adversely affect the quality of water service that Graves District provides.

12. Graves District's proposed rates accurately reflect the cost of providing water service to its customers and are fair, just, and reasonable.¹⁰

¹⁰ While the proposed Phase I rates will not generate revenues of \$1,180,954, they will generate sufficient revenues to meet Graves District's operating expenses and the debt service payments for all outstanding loans other than KIA Loan B11-02. Commission Staff Report, Attach. B at 1 (filed Aug. 8, 2012). Graves District is not obligated to make principal and interest payments on KIA Loan 11-02 until one year following installation of all AMI equipment. Kentucky Infrastructure Authority Assistance Agreement Project B11-02 (Nov. 1, 2011), Ex. A at 2. Moreover, the decision to request rates that produces revenues less than the Commission finds reasonable rests with the utility. See *Utilities Operating Co. v. King*, 143 So.2d 854, 858, 45 PUR3d 439, 443 (Fla. 1962) ("[I]n the absence of some showing that the service to the public will suffer by allowing . . . [a] utility to charge rates which will not produce a fair return, the utility and not the Commission has the right of decision as to the rates it will charge so long as they do not exceed those which would produce a fair return as determined by the Commission."). See also Case No. 2006-00410, *Application of Hardin County Water District No. 1 for a General Rate Adjustment Effective On and After December 2, 2006* (Ky. PSC Aug. 2, 2007); Case No. 99477, *The Alternative Rate Filing of Lockwood Estates Developing Corp.* (Ky. PSC Apr. 21, 2000).

13. Neither Graves District nor Commission Staff provide a definite date for implementation of the Phase II rates.¹¹ In the absence of a clear definition of the “closing date” of KIA Loan 11-02, the expected date of completion of the installation of the advanced metering infrastructure equipment should be used. As Graves District estimates the expected completion date of the installation of AMI equipment as December 31, 2013, Phase II rates should become effective on January 1, 2014.

14. When first reporting the assets of the merged districts in its books and records, Graves District wrote down the value of Utility Plant in Service by approximately \$4.5 million and also wrote down depreciation accumulated on this plant by a corresponding amount.¹² This accounting treatment is contrary to Accounting Instruction 21 of the Uniform System of Accounts.¹³

15. In its books of original entry, Graves District should restate the balances reported for Utility Plant in Service and Accumulated Depreciation to their original balances at the time of merger with adjustments made for plant additions subsequent to

¹¹ There is significant confusion in the record as to the starting date for Phase II rates. In its notice, Graves District proposes to make the Phase II rates effective “when payback of the KIA loan for the AMI meter project starts.” Since under the terms of the Assistance Agreement “[i]nterest payments will commence within six months from first draw of funds” and as the first draw occurred in March 2012, it would appear that Phase II rates should begin as early as September 2012. In its Application, Graves District states that “Phase 2 rates are to become effective on the date of closing of a third KIA loan.” App. Attach. B at 2. Commission Staff recommended that Phase II rates become effective upon the “execution of the Assistance Agreement.” The Assistance Agreement, however, was executed on or about November 1, 2011. Based upon our reading of the Assistance Agreement and the Application, it appears that Graves District intended Phase II rates to become effective on the “Amortization Commencement Date” referenced in the Assistance Agreement. Under the terms of the Assistance Agreement, “[f]ull principal and interest payments will commence within one year of initiation of operation.” Assistance Agreement, Ex. A at 2. As the Assistance Agreement also requires the water district to notify KIA of completion of the project and to commence operations immediately upon completion, we believe that completion of the installation of AMI equipment is likely what Graves District intended.

¹² App. Attach. D at 5-6.

¹³ *Uniform System of Accounts for Class A/B Water Districts and Associations* (Nat'l Ass'n of Util. Reg. Comm'rs (1996) as modified and adopted by Ky. PSC (2002)) at 23-26, available at <http://psc.ky.gov/agencies/psc/forms/usoa/0700ab02.pdf>.

the merger. This accounting is required on a going forward basis only. A footnote explaining the adjusted balances should be attached to the financial statements in the year the adjustment is made. Revision and reissuance of financial statements submitted to the Commission in prior years should not be required.

16. After restating Utility Plant in Service and Accumulated Depreciation, Graves District should begin calculating depreciation using the whole-life method.

IT IS THEREFORE ORDERED that:

1. The records of Cases No. 2011-00233¹⁴ and No. 2011-00390¹⁵ are incorporated by reference into the record of this proceeding.

2. 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.

3. Graves District's proposed Phase I rates, which are set forth in Appendix A to this Order, are approved for water service rendered on and after the date of this Order.

4. Graves District's proposed Phase II rates, which are set forth in Appendix B to this Order, are approved for water service rendered on and after January 1, 2014.

¹⁴ Case No 2011-00233, *Application of Graves County Water District for Approval of Construction and Issuance of a Certificate of Convenience and Necessity for the Purchase and Installation of Automated Meter Reading Equipment* (Ky. PSC filed July 1, 2011).

¹⁵ Case No. 2011-00390, *Application of Graves County Water District for Authority to Enter Into a Loan Agreement With the Kentucky Infrastructure Authority* (Ky. PSC filed Sept. 28, 2011)

5. Within 20 days of the date of this Order, Graves District shall file revised tariff sheets with the Commission containing the rates set forth in Appendices A and B to this Order.

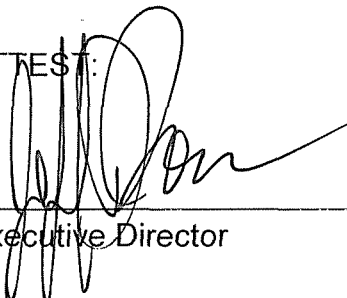
6. On or about December 1, 2013, Graves District shall notify its customers of the implementation of Phase II rates by publishing notice of the increase in a newspaper of general circulation in its territory or placing an insert in bills rendered to its customers. Notice shall be in the form set forth in Appendix C to this Order.

7. Graves District shall remove the effects of the write-down of Utility Plant in Service and Accumulated Depreciation from its books and records that occurred in 2008 and shall restate in its books of original entry the balances reported for Utility Plant in Service and Accumulated Depreciation to their original balances at the time of merger with adjustments made for plant additions subsequent to the merger.

8. Graves District shall attach to its financial statements, for the year the adjustment ordered above is made, a footnote explaining the adjusted balances.

9. As of the date of this Order, Graves District shall use the whole-life method to calculate annual depreciation expense.

By the Commission

ATTEST:


Executive Director

ENTERED *R*
SEP 05 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00278 DATED **SEP 05 2012**

The following rates and charges are prescribed for the customers in the area served by Graves County 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 – PHASE I

5/8" x 3/4" Meter

First	2,000 gallons	\$13.30 Minimum Bill
Next	8,000 gallons	4.73 per 1,000 gallons
Next	10,000 gallons	4.26 per 1,000 gallons
Next	30,000 gallons	3.78 per 1,000 gallons
Over	50,000 gallons	3.30 per 1,000 gallons

1" Meter

First	5,000 gallons	\$27.49 Minimum Bill
Next	5,000 gallons	4.73 per 1,000 gallons
Next	10,000 gallons	4.26 per 1,000 gallons
Next	30,000 gallons	3.78 per 1,000 gallons
Over	50,000 gallons	3.30 per 1,000 gallons

2" Meter

First	20,000 gallons	\$93.74 Minimum Bill
Next	30,000 gallons	3.78 per 1,000 gallons
Over	50,000 gallons	3.30 per 1,000 gallons

Wholesale Water Rate		\$2.52 per 1,000 gallons
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00278 DATED **SEP 05 2012**

The following rates and charges are prescribed for the customers in the area served by Graves County Water District on and after January 1, 2014. 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 – PHASE II

5/8" x 3/4" Meter

First	2,000 gallons	\$13.53 Minimum Bill
Next	8,000 gallons	5.28 per 1,000 gallons
Next	10,000 gallons	4.73 per 1,000 gallons
Next	30,000 gallons	4.18 per 1,000 gallons
Over	50,000 gallons	3.62 per 1,000 gallons

1" Meter

First	5,000 gallons	\$29.37 Minimum Bill
Next	5,000 gallons	5.28 per 1,000 gallons
Next	10,000 gallons	4.73 per 1,000 gallons
Next	30,000 gallons	4.18 per 1,000 gallons
Over	50,000 gallons	3.62 per 1,000 gallons

2" Meter

First	20,000 gallons	\$103.07 Minimum Bill
Next	30,000 gallons	4.18 per 1,000 gallons
Over	50,000 gallons	3.62 per 1,000 gallons

Wholesale Water Rate	\$2.69 per 1,000 gallons
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APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00278 DATED **SEP 05 2012**

-NOTICE-

On September 5, 2012, the Public Service Commission in PSC Case No. 2012-00278 approved a two-phase rate adjustment for Graves County Water District. The first phase of this rate adjustment took effect on September 5, 2012. The second phase of this rate adjustment will occur on January 1, 2014. Effective that day, Graves County Water District will charge the following rates for water service:

5/8" x 3/4" Meter

First	2,000 gallons	\$13.53 Minimum Bill
Next	8,000 gallons	5.28 per 1,000 gallons
Next	10,000 gallons	4.73 per 1,000 gallons
Next	30,000 gallons	4.18 per 1,000 gallons
Over	50,000 gallons	3.62 per 1,000 gallons

1" Meter

First	5,000 gallons	\$29.37 Minimum Bill
Next	5,000 gallons	5.28 per 1,000 gallons
Next	10,000 gallons	4.73 per 1,000 gallons
Next	30,000 gallons	4.18 per 1,000 gallons
Over	50,000 gallons	3.62 per 1,000 gallons

2" Meter

First	20,000 gallons	\$103.07 Minimum Bill
Next	30,000 gallons	4.18 per 1,000 gallons
Over	50,000 gallons	3.62 per 1,000 gallons

Wholesale Water Rate		\$2.69 per 1,000 gallons
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Johnny Dowdy
Chair
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