

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF PEAKS MILL WATER	)	
DISTRICT FOR AN ADJUSTMENT OF RATES	)	CASE NO. 2012-00008
PURSUANT TO THE ALTERNATIVE RATE	)	
FILING PROCEDURE FOR SMALL UTILITIES	)	

ORDER

Pursuant to 807 KAR 5:076, Peaks Mill Water District (“Peaks Mill”) has applied for an adjustment of rates for water service. By this Order, the Commission establishes rates that will produce additional annual revenues of \$125,475, or 23.97 percent increase over normalized test period revenues from water sales of \$523,398. For the residential customer who consumes 5,000 gallons of water monthly, his or her monthly bill will increase from \$40.08 to \$51.70, or approximately 27.42 percent.<sup>1</sup>

Peaks Mill, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 1,009 customers in Franklin County, Kentucky.<sup>2</sup> Its last general rate adjustment occurred on July 18, 2006.<sup>3</sup>

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<sup>1</sup> If the effects of the recent purchased water adjustment are considered, the residential customer who consumes 5,000 gallons of water month will see his or her monthly bill rise from \$40.83 to \$51.70, or approximately 26.62 percent.

<sup>2</sup> *Annual Report of Peaks Mill Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010* at 5, 27.

<sup>3</sup> Case No. 2006-00142, *Application of the Peaks Mill Water District For (1) A Certificate of Public Convenience and Necessity To Construct the Proposed Waterworks Improvement Project; (2) Approval of the Proposed Plan To Finance the Waterworks* (Ky. PSC June 28, 2006). Since its last general rate adjustment, Peaks Mill has adjusted its rates four times to reflect changes in its cost of purchased water using purchased water adjustment procedures. See Case No. 2008-00552, *Purchased Water Adjustment of Peaks Mill Water District* (Ky. PSC Jan. 22, 2009); Case No. 2009-00232, *Purchased Water Adjustment of Peaks Mill Water District* (Ky. PSC Sept. 2, 2009); Case No. 2011-00118, *Purchased Water Adjustment of Peaks Mill Water District* (Ky. PSC May 2, 2011); Case No. 2012-00092, *Purchased Water Adjustment of Peaks Mill Water District* (Ky. PSC Apr. 9, 2012).

On January 9, 2012, Peaks Mill filed with the Commission its application for an adjustment of its rates for water service. Using its historical operations for the calendar year ended December 31, 2010 and adjusting for known and measureable changes, Peaks Mill proposed rates that would produce additional revenues from water sales of \$130,307, an increase of 25.36 percent over normalized revenues from water sales of \$513,729.<sup>4</sup>

On March 30, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate and Peaks Mill's operations during the test period. It found that, based upon Peaks Mill's test-period operations, Peaks Mill required total revenues of \$641,607 and total revenues from water rates of \$617,835<sup>5</sup> to meet its reasonable operating expenses and provide for reasonable equity growth. It further found that, to reach this level of revenue, Peaks Mill required a rate adjustment to generate additional annual revenue of \$127,878 over normalized revenue from rates of \$487,957 and that Peaks Mill's proposed rates would produce this level of revenue.<sup>6</sup>

Peaks Mill responded to the findings and recommendation contained in Commission Staff's report on April 11, 2012. It stated no objections to those findings and recommendations and further advised that the matter should be submitted to the Commission for decision based upon the existing record. Peaks Mill noted that

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<sup>4</sup> These amounts do not take into consideration the effects of the recent increase in the rates of Peaks Mill's wholesale supplier or Peaks Mill's recent purchased water adjustment.

<sup>5</sup> In its report, Commission Staff provided conflicting statements regarding Peaks Mill's total revenue requirement from water, reporting that Peaks Mill required \$617,865 and \$617,835. See Staff Report at 3 and App. C.

<sup>6</sup> Commission Staff found that the proposed rates would produce approximately 0.02 percent more than the required revenue increase, but that adjustments to the proposed rates to produce the exact revenue requirement would require establishing rates that were beyond the capabilities of Peaks Mill's billing system.

Commission Staff's recommended rates should be adjusted to reflect its recent purchased water adjustment.<sup>7</sup>

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 this Order, the findings contained in Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.
2. The calendar year ending December 31, 2010, should be used as the test period to determine the reasonableness of Peaks Mill's existing and proposed rates.
3. Based upon pro forma test-period operations, Peaks Mill's pro forma annual revenue is \$523,398.<sup>8</sup> Approximately \$497,626 of this revenue results from water sales.

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<sup>7</sup> Case No. 2012-00092, *Purchased Water Adjustment of Peaks Mill Water District* (Ky. PSC Apr. 9, 2012).

<sup>8</sup> Revenue from Residential Water Sales (\$497,626) + Miscellaneous Service Revenue (\$25,772) = \$523,398. The table below shows the calculation of normalized revenue from residential water sales when the effects of the recent purchased water adjustment are considered.

	<b>Bills</b>	<b>Gallons</b>	<b>Rate</b>	<b>Revenue</b>
First 2,000 gallons	13,352	21,614,503	20.43	\$272,781.36
Next 3,000 gallons		17,618,100	6.80	119,803.08
Next 5,000 gallons		8,116,500	5.58	45,290.07
Over 10,000 gallons		12,022,400	4.97	59,751.33
<b>TOTAL</b>	<b>13,352</b>	<b>59,371,503</b>		<b>\$497,625.84</b>

4. Based upon pro forma test-period operations, Peaks Mill's pro forma total operating expenses, after adjusting for known and measurable changes, are \$528,371.<sup>9</sup>

5. Peaks Mill's average annual principal and interest payment on its long-term debt for the three-year period from 2012 to 2014 is \$100,193.

6. Given that Peaks Mill is a water district, the use of debt service coverage methodology to determine its total revenue requirement is appropriate.

7. The use of a debt service coverage ratio of 1.2x should be used to determine Peaks Mill's total revenue requirement.

8. Applying a debt service coverage of 1.2x to Peaks Mill's average annual debt service requirement for the period from 2012 to 2014 produces a total revenue

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<sup>9</sup> This amount reflects the increase from \$1.81 per 1,000 gallons to \$1.91 per 1,000 gallons in the rate that Frankfort Electric and Water Plant charges to Peaks Mill for wholesale water service. It does not include \$33,757 in purchase water expenses that Peaks Mill incurred during the test period.

Pro Forma Water Sales	59,371,500
Add: System Flushing, Fire Department, and Other	<u>2,387,000</u>
Subtotal	61,758,500
Divided by: 15% Line Loss Reciprocal	<u>85.00%</u>
Allowable Purchase/Production	72,657,059
Times: Water Rate per 1,000 Gallons	<u>\$ 1.91</u>
Pro Forma Purchased Water Expense	138,775
Less: Actual Test-period Expense	<u>(172,532)</u>
Pro Forma Adjustment - Nonrevenue Water	<u>\$ (33,757)</u>

This amount also does not include \$2,300 of purchase power expense that is related to power purchased to pump excess unaccounted-for water in Peaks Mill's system.

During the test period, Peaks Mill experienced unaccounted-for water loss of 34.269 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."

requirement of \$648,603<sup>10</sup> or \$125,205 more than Peaks Mill's pro forma annual revenues.<sup>11</sup>

9. Peaks Mill's proposed rates will produce total annual revenues of \$643,709<sup>12</sup> and are, as a result of the recent increase in the rate of Peaks Mill's wholesale supplier, insufficient to meet Peaks Mill's reasonable operating expenses and debt service requirements and to provide for reasonable equity growth.

10. Peaks Mill's proposed rates should be denied.

11. The rates set forth in the Appendix to this Order will produce revenues for water sales of \$623,131 and total revenues of \$648,903, are sufficient to meet Peaks Mill's reasonable operating expenses and debt service requirements and to provide for reasonable equity growth.<sup>13</sup>

12. The rates set forth in the Appendix to this Order are fair, just, and reasonable and should be assessed for water service rendered by Peaks Mill 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. Peaks Mill's proposed rates are denied.

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<sup>10</sup> (Average Debt Service x 1.2) + Pro forma Total Operating Expenses = (\$100,193 x 1.2) + \$528,371 = \$120,232 + \$528,371 = \$648,603.

<sup>11</sup> \$648,603 - \$523,398 = \$125,205.

<sup>12</sup> The proposed rates will produce revenues from water sales of \$617,937.

<sup>13</sup> The rates in the Appendix will produce revenues in excess of Peaks Mill's revenue requirement. As this excess amount represents about 0.046 percent of the total revenue requirement, it is *de minimis*. Moreover, given the limitations of Peaks Mill's billing system, more precise rates are not possible.

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

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

5. This matter is closed and shall be removed from the Commission's docket.

By the Commission



ATTEST:

  
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Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2012-00008 DATED **MAY 01 2012**

The following rates and charges are prescribed for the customers in the area served by Peaks Mills 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.

First	2,000	gallons	25.60	minimum bill
Next	3,000	gallons	8.49	per 1,000 gallons
Next	5,000	gallons	7.27	per 1,000 gallons
Over	10,000	gallons	6.05	per 1,000 gallons

Church Quarles  
Peaks Mill Water District  
7165 US 127 North  
Frankfort, KY 40601