

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR RATE ADJUSTMENT)	CASE NO.
OF NEBO WATER DISTRICT)	2016-00435

ORDER

On December 15, 2016, Nebo Water District (“Nebo District”) tendered an application (“Application”) to the Commission requesting to increase its water service rates pursuant to 807 KAR 5:076. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated January 13, 2017, which, among other things, required Commission Staff (“Staff”) to file a report containing its findings regarding the rates requested by Nebo District. The Attorney General (“AG”) filed a motion to intervene in this proceeding, and the Commission granted the AG’s motion to intervene by an Order entered on January 31, 2017.

On March 28, 2017, Staff issued a report (“Report”) summarizing its findings. In its Report, Staff found that Nebo District’s adjusted test-year operations support an overall revenue requirement in the amount of \$940,129 and that an annual revenue increase in the amount of \$109,430, or 13.65 percent, is necessary to generate the overall revenue requirement. Staff further found that the revenue increase should be distributed evenly among Nebo District’s current water service rates.

On April 5, 2017, Nebo District filed with the Commission its comments on Staff’s report wherein it agreed with Staff’s findings and requested that the case stand submitted to the Commission for a decision without holding an informal conference or a

formal hearing.¹ On April 11, 2017, the AG submitted written comments to the Staff Report. The AG stated that he “concur[s] with the Staff Report’s recommendation to lower the proposed revenue increase and encourages the District to continue managing expenses in light of the recent decline in revenue from the local coal industry.”² The AG stated that he did not believe a formal hearing to be necessary.³

BACKGROUND

Nebo Water District is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 1,564 customers that reside in Hopkins County, Kentucky.⁴ Nebo District does not produce any of its own water; rather, it purchases its water from the city of Madisonville and Webster County Water District. Nebo District’s last general rate adjustment occurred in April 2007.⁵

TEST PERIOD

The calendar year ended December 31, 2015, should be used as the test year to determine the reasonableness of Nebo District’s existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

¹ Letter from J.E. Ellis, Chairman, Nebo Water District, to Talina R. Mathews, Executive Director, Public Service Commission (Apr. 5, 2017).

² AG’s Comments (filed Apr. 11, 2017) at 4.

³ *Id.*

⁴ *Annual Report of Nebo Water District to the Public Service Commission for the Calendar Year Ended December 31, 2015 (“Annual Report”)* at 12 and 54.

⁵ Case No. 2007-00081, *Application of Nebo Water District for Approval of Increased Rates for Water Service* (Ky. PSC Apr. 19, 2007).

MODIFICATIONS TO STAFF'S FINDINGS

Nebo District proposed three adjustments to revenues and expenses to reflect current and expected operating conditions. In its Report, Staff modified these adjustments and proposed additional adjustments. The Commission accepts the findings contained in the Staff Report except for the recovery of costs for employee health and dental insurance premiums as discussed below.

Employee Contribution for Health and Dental Insurance Premiums

Nebo District currently pays 100 percent of the monthly premiums for health insurance for its employees, their spouses, and dependents. Additionally, Nebo District currently pays 100 percent of monthly premiums for dental insurance. The Commission expects Nebo District to increase its efforts to reduce expenses related to employee benefits by establishing a policy that requires employees to pay a portion of their healthcare and dental insurance premiums. The Commission finds that Nebo District should exercise financial prudence and reduce expenses by limiting contributions to its employees' health care and dental plans to levels more commensurate with those of other businesses.

Accordingly, the Commission will adjust test-year expenses for health insurance premiums for employees based on national average employee contribution rates. The Commission has reduced expenses for health insurance premiums for salaried employees with family health coverage \$11,709, based on a 32 percent employee contribution rate, and for salaried employees with single coverage, \$996 based on a 21

percent employee contribution rate.⁶ The Commission has also reduced expenses for dental insurance premiums for employees \$956, based on a 60 percent employee contribution rate.⁷

DEPRECIATION

Nebo District presently uses service lives for various water assets that are at variance with those found in a survey of the National Association of Regulatory Utility Commissioners (“NARUC”) of “average service lives currently being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice.”⁸ However, Nebo District’s application proposed to adjust all asset service lives to be within the range of service lives set forth in the NARUC Survey. The Commission has previously used the NARUC Survey to establish the service lives of water assets when there is no evidence in the record that supports alternative lives.⁹ Nebo District’s adjustment of service lives for water assets to conform to the NARUC Survey is reasonable, and should be used for ratemaking and accounting purposes in all future reporting periods.

⁶ Bureau of Labor Statistics, Healthcare Benefits, March 2016, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2016/ownership/private/table10a.pdf>).

⁷ The Willis Benefits benchmarking Survey, 2015, at 62. (https://www.willis.com/documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

⁸ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

⁹ Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21 2007); and Case No. 2012-00278, *Application of Graves County Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Sept. 5, 2012).

SUMMARY OF REVENUE AND EXPENSES

The Commission finds, based on its modifications to the findings of the Staff Report, Nebo District's pro forma operations should be as follows:

	<u>Staff Pro Forma Operations</u>	<u>Commission Adjustments</u>	<u>Commission Pro Forma Operations</u>
Operating Revenues	\$824,979		\$ 824,979
Operating Expenses	<u>914,955</u>	<u>(13,661)</u>	<u>901,294</u>
Net Operating Income	(89,976)	13,661	(76,315)
Interest Income	3,320		3,320
Nonutility Income	<u>2,400</u>		<u>2,400</u>
Income Available for Debt Service	<u>\$ (84,256)</u>	<u>\$ 13,661</u>	<u>\$ (70,595)</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Nebo District requires an increase in revenues of \$95,769, or 11.94 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$901,294
Plus: Average Annual Principal and Interest Payments	20,979
Additional Working Capital	<u>4,196</u>
Overall Revenue Requirement	926,468
Less: Other Operating Revenue	(23,110)
Interest Income	<u>(5,720)</u>
Revenue Required from Rates	897,638
Less: Pro Forma Present Rate Service Revenues	<u>(801,869)</u>
Required Revenue Increase	<u>\$ 95,769</u>
Percentage Increase	<u>11.94%</u>

RATE DESIGN

Nebo District proposed to increase its current water service rates by an even, across-the-board percentage increase based on the percentage increase in revenue required from rates. The Commission finds that in the absence of a cost-of-service study, the proposed method is an appropriate and equitable method to allocate the increased cost to Nebo District's customers. The rates in the Appendix attached to this Order will produce water rate revenues of \$897,638, the revenue requirement determined reasonable by the Commission herein. The monthly bill of a typical residential customer using 4,000 gallons will increase from \$35.99 to \$40.29, an increase of \$4.30, or 11.95 percent.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates proposed by Nebo District would produce revenues in excess of the amount found reasonable herein and should be denied.
2. The rates set forth in the Appendix to this Order are the fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

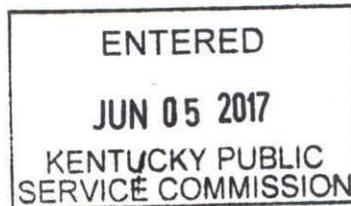
1. The rates proposed by Nebo District are denied.
2. The rates set forth in the Appendix to this Order are approved for services rendered by Nebo District on and after the date of this Order.
3. Within 20 days of the date of this Order, Nebo District shall file with this Commission, using the Commission's 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.

4. Nebo District shall use the Commission-approved service lives set forth in detail in Attachment C to the Staff Report, and as summarized below, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation, or retained earnings should be made to account for this change in accounting estimate.

Structures and Improvements	30, 40
Distributions Reservoirs	20, 25, 50
Transmission and Distribution Mains	62.5
Meters and Meter Installations	35
Office Equipment	10
Transportation Equipments	7
Power Operated Equipment	10
Communications Equipment	10

By the Commission



ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2016-00435 DATED **JUN 05 2017**

The following rates and charges are prescribed for the customers in the area served by Nebo 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-Inch Meter

First	2,000 Gallons	\$ 22.15 Minimum Bill
Next	2,000 Gallons	9.07 Per 1,000 Gallons
Next	6,000 Gallons	8.57 Per 1,000 Gallons
Next	10,000 Gallons	8.08 Per 1,000 Gallons
Over	20,000 Gallons	7.58 Per 1,000 Gallons

1-Inch Meter

First	4,000 Gallons	\$ 40.29 Minimum Bill
Next	6,000 Gallons	8.57 Per 1,000 Gallons
Next	10,000 Gallons	8.08 Per 1,000 Gallons
Over	20,000 Gallons	7.58 Per 1,000 Gallons

1 1/2-Inch Meter

First	10,000 Gallons	\$ 91.71 Minimum Bill
Next	10,000 Gallons	8.08 Per 1,000 Gallons
Over	20,000 Gallons	7.58 Per 1,000 Gallons

2-Inch Meter

First	20,000 Gallons	\$ 172.51 Minimum Bill
Over	20,000 Gallons	7.58 Per 1,000 Gallons

3-Inch Meter

First	30,000 Gallons	\$248.31 Minimum Bill
Over	30,000 Gallons	7.58 Per 1,000 Gallons

4-Inch Meter

First	50,000 Gallons	\$ 399.91 Minimum Bill
Over	50,000 Gallons	7.58 Per 1,000 Gallons

*Nebo Water District
45 North Bernard Street
Nebo, KY 42441

*Lonnie Neal
Office Manager
Nebo Water District
45 North Bernard Street
Nebo, KY 42441

*S. Morgan Faulkner
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204