

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTH MCLEAN COUNTY)	CASE NO.
WATER DISTRICT FOR ALTERNATIVE RATE)	2017-00253
ADJUSTMENT)	

ORDER

On June 26, 2017, North McLean County Water District (“North McLean”) tendered an application (“Application”) with the Commission pursuant to 807 KAR 5:076 requesting to adjust its rates for water service. By letter dated June 30, 2017, the Commission notified North McLean that the Application was rejected as deficient. On July 7, 2017, and July 20, 2017, North McLean filed its responses to the filing deficiencies. The Application was accepted for filing on July 20, 2017. In its Application, North McLean requested rates that would increase the monthly bill of a typical residential customer purchasing 6,539 gallons of water by \$3.97, from \$41.83¹ to \$45.80, or approximately 9.50 percent.

Pursuant to the procedural Order, on October 18, 2017, Commission Staff (“Staff”) issued a report (“Report”) summarizing its findings regarding North McLean’s requested rate adjustment. In its Report, Staff found that North McLean’s adjusted test-year operations support an overall revenue requirement of \$704,146 and that an annual revenue increase of \$80,196, or 13.35 percent, is necessary to generate the overall revenue requirement.

¹ The calculation of \$41.83 is based on customer usage of 7,000 gallons rather than 6,539 gallons as detailed in the customer notice.

On October 26, 2017, North McLean filed with the Commission its comments on Staff's report, wherein it accepted Staff's findings and requested to implement the rates calculated by Staff. With its comments, North McLean did not request that an informal conference or formal hearing be held.²

WATER LOSS

The Commission notes that in its 2016 Annual Report North McLean reported a water loss of 19.86 percent. Commission regulation 807 KAR 5:066 Section 6(3) states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages North McLean to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by North McLean to make significant process towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

BACKGROUND

North McLean 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 1,298 customers in McLean County, Kentucky.³ North McLean's last

² Letter from Beth Bobo, Secretary, North McLean County Water District, to Gwen R. Pinson, Executive Director, Public Service Commission (Oct. 26, 2017).

³ *Annual Report of North McLean County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016* ("Annual Report") at 12 and 48.

application for rate adjustment was approximately 17 years ago in Case No. 2001-00226⁴.

TEST PERIOD

The calendar year ended December 31, 2016, was used as the test year to determine the reasonableness of North McLean’s existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Based on the findings of the Staff Report, North McLean’s pro forma operational revenue is as follows:

	<u>2016 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 619,929	\$ 583	\$ 620,512
Operating Expenses	<u>655,798</u>	<u>22,442</u>	<u>678,240</u>
Net Operating Income	(35,869)	(21,859)	(57,728)
Interest Income	<u>3,438</u>	<u> </u>	<u>3,438</u>
Income Available for Debt Service	<u>\$ (32,431)</u>	<u>\$ (21,859)</u>	<u>\$ (54,290)</u>

STAFF’S FINDINGS

In its Application, North McLean did not propose any adjustments to its test-year operations. In its Report, Staff proposed adjustments to both revenues and expenses. The Commission accepts the findings contained in Staff’s Report.

⁴ Case No. 2001-00226, *An Adjustment of Rates of the North McLean County Water District*, (Ky. PSC Sept. 17, 2001).

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, North McLean requires an increase in revenues of \$80,196, or 13.35 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 678,240
Plus: Average Annual Principal and Interest Payments	21,589
Additional Working Capital	<u>4,318</u>
Overall Revenue Requirement	704,147
Less: Other Operating Revenue	(19,915)
Interest Income	<u>(3,438)</u>
Revenue Required from Rates	680,794
Less: Pro Forma Present Rate Service Revenues	<u>(600,597)</u>
Required Revenue Increase	<u>\$ 80,196</u>
Percentage Increase	<u>13.35%</u>

RATE DESIGN

The Commission finds that in the absence of a cost-of-service study the across-the-board method as proposed by Staff is an appropriate and equitable method to allocate the increased cost to North McLean's customers. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$680,794. The revenue required is determined to be reasonable by the Commission herein. The monthly bill of a typical residential customer using 7,000 gallons will increase from \$41.83 to \$47.42, or 13.36 percent.

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

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.

2. The Commission has historically used a debt service coverage (“DSC”) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission’s DSC method to North McLean’s pro forma operations results in an Overall Revenue Requirement of \$704,147. A revenue increase of \$80,196 from water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by North McLean should be denied.

4. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The general service rates proposed by North McLean are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by North McLean on and after the date of this Order.

4. Within 20 days of the date of this Order, North McLean 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.

By the Commission

ENTERED
JAN 05 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2017-00253

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00253 DATED **JAN 05 2018**

The following rates and charges are prescribed for the customers in the area served by North McLean 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

First	2,000	Gallons	\$16.87	Minimum bill
Next	8,000	Gallons	6.11	per 1,000 Gallons
Next	30,000	Gallons	5.54	per 1,000 Gallons
Over	40,000	Gallons	4.99	per 1,000 Gallons

*North McLean County Water District
217 Hill Street
P. O. Box 68
Livermore, KY 42352

*Tiffany Sallee
North McLean County Water District
217 Hill Street
P. O. Box 68
Livermore, KY 42352