

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEST MCCRACKEN)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2017-00319
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On August 1, 2017, West McCracken County Water District (“West McCracken”) tendered an application (“Application”) to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated August 11, 2017, which, among other things, required Commission Staff (“Staff”) to file a report containing its findings regarding West McCracken’s Application.

West McCracken determined that its test year revenues and expenses justified a revenue increase of \$219,791, or 34.66 percent.¹ However, West McCracken limited its request to a 10.00 percent increase, or \$60,104 in additional revenues.² On October 30, 2017, Staff issued a report summarizing its findings. Staff found that West McCracken’s adjusted test-year operations support an overall revenue requirement of \$836,708 and that an annual increase in revenue of \$175,172, or 27.93 percent, would be necessary to generate the overall revenue requirement. Staff further found that an across-the-board

¹ Application, Revenue Requirement Calculation-Debt Service Coverage Method.

² *Id.* Revenue from Current and Proposed Rates, Test Period from 01-01-16 to 12-31-16.

increase to all rate classes is the appropriate means to achieve the increased revenue requirement.

On November 16, 2017, West McCracken filed with the Commission its comments to Staff's report.³ West McCracken accepted Staff's finding that it could justify a \$175,172 increase in revenue from water service, for an overall revenue requirement of \$836,708. The utility further accepted Staff's finding that a rate increase of 27.93 percent would produce the \$802,775 in required revenue from water service. West McCracken amended its Application to request that the rate increase be implemented in a three-year rate phase-in as follows: Phase 1: a 10.00 percent increase in 2018; Phase 2: a 10.00 percent increase in 2019; and Phase 3: a 7.93 percent increase in 2020. West McCracken waived its right to request an informal conference or a formal hearing.

In its April 23, 2015 Order, the Commission ordered West McCracken to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its Amended rates, and to submit proof of publication of the notice with the Commission no later than January 4, 2018. On December 22, 2016, West McCracken submitted the requested proof that the customer notice was published on December 12, 2017 in The Paducah Sun Newspaper.

BACKGROUND

West McCracken is a water district organized pursuant to KRS Chapter 74, that provides water service to approximately 1,517 residential, commercial, and industrial

³ Letter from Shelia Mansfield, Superintendent, West McCracken County Water District, to Gwen R. Pinson, Executive Director, Public Service Commission (Nov. 16, 2017).

customers residing in McCracken County, Kentucky.⁴ West McCracken's last general rate adjustment occurred in 2011.⁵

TEST PERIOD

The calendar year ended December 31, 2016, should be used as the test year to determine the reasonableness of West McCracken's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes West McCracken's pro forma income statement as follows:

	<u>2016 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 660,976	\$ (6,542)	\$ 654,434
Utility Operating Expenses	<u>833,125</u>	<u>(68,265)</u>	<u>764,860</u>
Net Utility Operating Income	<u>\$ (172,149)</u>	<u>\$ 61,723</u>	<u>\$ (110,426)</u>

REVENUE REQUIREMENTS

In its report, Staff determined that West McCracken's pro forma operations support an increase in revenues from water sales of \$175,272 or 27.93 percent above normalized operating revenues from water sales, as shown below:

⁴ Annual Report of West McCracken Heights Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016 at 12 and 48.

⁵ Case No. 2010-00454, Application of West McCracken County Water District for Approval of Increased Rates for Water Service (Ky. PSC Sep. 20, 2011).

Pro Forma Operating Expenses	\$ 764,860
Plus: Average Debt Service Payments	59,873
Debt Coverage Requirement	<u>11,975</u>
Total Revenue Requirement	836,708
Less: Other Revenue	<u>(33,933)</u>
Revenue Required from Rates	802,775
Less: Revenues from Water Sales	<u>(627,503)</u>
Required Revenue Increase	<u>\$ 175,272</u>
Percentage Increase	<u>27.93%</u>

SUMMARY

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. A utility may propose rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as insufficient or inadequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of the level of revenue, the proposed rates should be accepted.⁶
3. The record contains no evidence that permitting West McCracken to assess its proposed rates will result in any degradation of reduction in the quality of service that West McCracken currently provides.

⁶ *Utilities Operating Co. v King*, 143 So2d 854, 45 PUR.3d 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, *The Application of Hardin County Water District No 7 for a General Rate Adjustment Effective on and after December 2, 2006* (Ky. PSC Aug 2, 2007); Case No 98-398, *Adjustment of Rates of the Kentucky Turnpike Water District and the imposition of an impact Fee* (Ky. PSC June 30, 1999).

4. Throughout all phases of the implementation of the proposed rate adjustment, West McCracken's revenues will produce an annual cash working capital allowance and will meet the debt service requirements of its lenders.⁷

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 rates originally proposed by West McCracken are denied.

3. West McCracken's request for three annual rate increases, based on Staff's finding that West McCracken could justify a \$175,272 increase in revenues from water sales for an overall revenue of \$802,775, is granted.

4. The Phase 1 rates set forth in the Appendix to this Order are approved for services rendered by West McCracken on and after the date of this Order.

5. The Phase 2 rates set forth in the Appendix to this Order are approved for service rendered by West McCracken effective the day after the first anniversary of the date of this Order.

7

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Revenues from Rates	\$ 662,736	\$ 723,491	\$ 771,151
Add: Other and Non-Operating Revenue	<u>33,933</u>	<u>33,933</u>	<u>33,933</u>
Total Revenues	696,669	757,424	805,084
Less: Pro Forma Operating Expenses	<u>(764,860)</u>	<u>(764,860)</u>	<u>(764,860)</u>
Subtotal	(68,191)	(7,436)	40,224
Add: Depreciation Expense	161,373	161,373	161,373
Cash Working Capital	<u>\$ 93,182</u>	<u>\$ 153,937</u>	<u>\$ 201,597</u>
DSC	<u>1.56</u>	<u>2.57</u>	<u>3.37</u>

6. The Phase 3 rates set forth in the Appendix to this Order are approved for service rendered by West McCracken effective the day after the second anniversary of the date of this Order.

7. One week prior to the effective date of the Phase 2 and Phase 3 rates, West McCracken shall publish notice following the requirements of 807 KAR 5:076, Section 5. The customer notice shall be in the format as set forth in the Appendix attached to the December 8, 2017 Order, and shall contain only the rate comparison being implemented for that rate phase.

8. Within 45 days of publishing the notice required in ordering paragraph number 7, West McCracken shall file proof of notice as required pursuant to 807 KAR 5:076, Section 5(3).

9. Within 20 days of the date of entry of this Order, West McCracken 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.

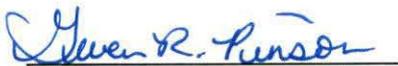
10. West McCracken shall modify the depreciable lives currently assigned to Transmission and Distribution Mains ("Mains") from 25 and 50 years to 62.5 years. This modification reflects the mid-point of the depreciable life range for Mains contained in the report published in 1979 by the National Association of Regulatory Utility Commissioners titled Depreciation Practices for Small Water Utilities.

11. West McCracken shall depreciate Mains over 62.5 years 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 the accounting estimate.

By the Commission

ENTERED
JAN 30 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-000319 DATED **JAN 30 2018**

The following rates and charges are prescribed for the customers in the area served by West McCracken Heights 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.

Phase 1 Rates

Minimum Rate w/ Zero Usage

5/8-Inch Meter	\$	7.32
1-Inch Meter		18.30
2-Inch Meter		73.22
3-Inch Meter		109.82
4-Inch Meter		183.04

All Water Usage

First	100,000 Gallons	\$	6.41	per 1,000 Gallons
Over	100,000 Gallons		4.54	per 1,000 Gallons
Bulk Water Sales		\$	6.89	

Phase 2 Rates

Minimum Rate w/ Zero Usage

5/8-Inch Meter	\$	7.98
1-Inch Meter		19.97
2-Inch Meter		79.87
3-Inch Meter		119.81
4-Inch Meter		199.68

All Water Usage

First	100,000 Gallons	\$	7.00	per 1,000 Gallons
Over	100,000 Gallons		4.96	per 1,000 Gallons
Bulk Water Sales		\$	7.51	

Phase 3 Rates

Minimum Rate w/ Zero Usage

5/8-Inch Meter	\$	8.51
1-Inch Meter		21.29
2-Inch Meter		85.15
3-Inch Meter		127.73
4-Inch Meter		212.88

All Water Usage

First	100,000 Gallons	\$	7.46	per 1,000 Gallons
Over	100,000 Gallons		5.28	per 1,000 Gallons
Bulk Water Sales		\$	8.01	

*West McCracken County Water District
8020 Ogden Landing Road
West Paducah, KY 42086

*Sheila Mansfield
West McCracken County Water District
8020 Ogden Landing Road
West Paducah, KY 42086