

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH HOPKINS	)	CASE NO.
WATER DISTRICT FOR AN ALTERNATIVE	)	2017-00420
RATE ADJUSTMENT	)	

ORDER

On October 26, 2017, South Hopkins Water District (“South Hopkins”) tendered its application (“Application”) to the Commission, requesting to adjust its water rates pursuant to 807 KAR 5:076. By letter dated November 3, 2017, the Commission notified South Hopkins that its Application was rejected as deficient. On November 14, 2017, South Hopkins filed its responses to the filing deficiency and its Application was accepted for filing on November 14, 2017. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated December 18, 2017, which, among other things, required Commission Staff (“Staff”) to file a report containing its findings regarding South Hopkins’s Application.

South Hopkins determined that its test-year revenues and expenses justified a revenue increase of \$441,701, or 32.17 percent.<sup>1</sup> However, South Hopkins limited its request to \$345,339 in additional revenues.<sup>2</sup> On February 19, 2018, Staff issued a report (“Staff Report”) summarizing its findings. Staff found that South Hopkins’s adjusted test-year operations support an Overall Revenue Requirement of \$1,584,652 and that an

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<sup>1</sup> Application, Revenue Requirement Calculation-Debt Service Coverage Method.

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

annual increase in revenue of \$122,476, or 8.80 percent, would be necessary to generate the Overall Revenue Requirement. Staff further found that an across-the-board increase to all rate classes is the appropriate means to achieve the increased revenue requirement.

On February 27, 2018, South Hopkins filed with the Commission its comments to the Staff Report.<sup>3</sup> South Hopkins accepted Staff's finding that it could justify an increase in revenue from water service of \$122,476, for an Overall Revenue Requirement of \$1,584,652. The utility further accepted Staff's finding that a rate increase of 8.80 percent would produce the \$1,516,020 in required revenue from water service.

#### WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. As noted in the Staff Report, South Hopkins's test-year water loss was 16.42 percent. Accordingly, Staff reduced test-year expenses by \$10,315 to account for the 1.42 percent excess water loss.<sup>4</sup>

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

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<sup>3</sup> Letter from Roy McGregor, Vice Chairman, South Hopkins Water District, to Gwen R. Pinson, Executive Director, Public Service Commission (Feb. 20, 2018).

<sup>4</sup> Staff Report at 10.

## BACKGROUND

South Hopkins, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 2,960 residential, commercial, industrial, and public authority customers residing in Caldwell and Hopkins counties, Kentucky.<sup>5</sup> South Hopkins's last general rate adjustment occurred in 2015.<sup>6</sup>

## TEST PERIOD

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

## SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes South Hopkins's pro forma income statement as follows:

	<u>2016 Annual Report</u>	<u>Pro Forma Operations</u>	<u>Pro Forma Adjustments</u>
Operating Revenues	\$ 1,439,353	\$ 20,346	\$ 1,459,699
Utility Operating Expenses	<u>1,587,462</u>	<u>(108,406)</u>	<u>1,479,056</u>
Net Utility Operating Income	<u>\$ (148,109)</u>	<u>\$ 128,752</u>	<u>\$ (19,357)</u>

## REVENUE REQUIREMENTS

In its Staff Report, Staff determined that South Hopkins's pro forma operations support an increase in revenues from water sales of \$122,476, or 8.80 percent above normalized operating revenues from water sales, as shown below:

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<sup>5</sup> *Annual Report of South Hopkins Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016* ("2016 Annual Report") at 50.

<sup>6</sup> Case No. 2015-00154, *Alternative Rate Adjustment Filing of South Hopkins Water District* (Ky. PSC Sep. 11, 2015).

Pro Forma Operating Expenses	\$ 1,479,056
Plus: Average Annual Debt Principal and Interest Payments	87,997
Debt Coverage Requirement	<u>17,599</u>
Total Revenue Requirement	1,584,652
Less: Other Operating Revenue	(66,155)
Non- Operating Revenue	0
Interest Income	<u>(2,477)</u>
Revenue Required from Rates	1,516,020
Less: Normalized Revenues from Water Sales	<u>(1,393,544)</u>
Required Revenue Increase/(Decrease)	<u>\$ 122,476</u>
Percentage Increase	<u>8.8%</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. The rates proposed by South Hopkins would produce revenues in excess of the amount found reasonable herein and should be denied.
3. The 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 rates originally proposed by South Hopkins are denied.

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

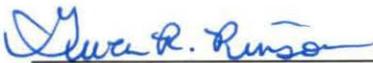
4. Within 20 days of the date of entry of this Order, South Hopkins shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

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By the Commission



ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2017-000420 DATED **MAR 30 2018**

The following rates and charges are prescribed for the customers in the area served by South Hopkins 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 Rates

5/8 x 3/4-Inch Meter

First	1,000	Gallons	\$ 11.74	Minimum Bill
Next	9,000	Gallons	6.26	per 1,000 Gallons
Next	10,000	Gallons	5.82	per 1,000 Gallons
Next	30,000	Gallons	5.38	per 1,000 Gallons
All Over	50,000	Gallons	4.55	per 1,000 Gallons

1-Inch Meter

First	10,000	Gallons	\$ 68.06	Minimum Bill
Next	10,000	Gallons	5.82	per 1,000 Gallons
Next	30,000	Gallons	5.38	per 1,000 Gallons
All Over	50,000	Gallons	4.55	per 1,000 Gallons

2-Inch Meter

First	20,000	Gallons	\$ 126.30	Minimum Bill
Next	30,000	Gallons	5.38	per 1,000 Gallons
All Over	50,000	Gallons	4.55	per 1,000 Gallons

3-Inch Meter

First	50,000	Gallons	\$ 287.64	Minimum Bill
All Over	50,000	Gallons	4.55	per 1,000 Gallons

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