

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MILBURN WATER DISTRICT) CASE NO.
FOR AN ALTERNATIVE RATE ADJUSTMENT) 2018-00314

ORDER

On September 17, 2018, Milburn Water District (Milburn District) tendered an application (Application) to the Commission, pursuant to 807 KAR 5:076, requesting to increase its water service rates. By letter dated September 28, 2018, the Commission notified Milburn District that its Application was rejected as deficient. Milburn District cured its filing deficiencies and its Application was deemed filed as of October 8, 2018. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated October 22, 2018, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding Milburn District's Application. The Attorney General is the only intervenor in this proceeding.

In its Application, Milburn District requested rates that would increase the monthly bill of a typical residential customer purchasing 4,000 gallons of water by \$17.41, from \$33.20 to \$50.61, or 52.44 percent.

Pursuant to the procedural Order, on January 15, 2018, Staff issued a report (Report) summarizing its findings regarding Milburn District's requested rate adjustment. In its Report, Staff found that Milburn District's adjusted test-year operations support an overall revenue requirement of \$61,279 and that an annual revenue increase of \$10,401, or 20.28 percent, is necessary to generate the overall revenue requirement.

On January 25, 2019, Milburn District filed with the Commission its comments on Staff's report. Milburn district accepted Staff's findings and requested to implement the rates calculated by Staff. Milburn District did not request that an informal conference or formal hearing be held.¹

On January 29, 2019, the Attorney General filed comments on Staff's report. The Attorney General generally agreed with Staff's findings, but expressed concern regarding Milburn District's water loss in excess of the allowable 15 percent. The Attorney General stated that a hearing was not necessary and that the case should be submitted on the written record.²

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, Milburn District's test-year water loss was 38.37 percent. Accordingly, Staff reduced test-year expenses by \$6,157 to account for the 23.37 percent excess water loss.³

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

¹ Milburn Water District Response to Commission Staff Report.

² Attorney General Comments on Staff Report.

³ Staff Report at 5.

BACKGROUND

Milburn District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 136 customers⁴ in Carlisle County, Kentucky.⁵ Milburn's last application for rate adjustment was approximately seven years ago in Case No. 2011-00425.⁶

TEST PERIOD

The calendar year ended December 31, 2017, was used as the test year to determine the reasonableness of Milburn'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, Milburn's pro forma operational revenue is as follows:

	<u>2017 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 56,032	(4,740)	\$ 51,292
Operating Expenses	<u>64,090</u>	<u>(10,164)</u>	<u>53,926</u>
Net Utility Operating Income	<u>\$ (8,058)</u>	<u>5,424</u>	<u>\$ (2,634)</u>

⁴ *Annual Report of Milburn Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016* (2016 Water Annual Report) at 38.

⁵ 2017 Water Annual Report at 12.

⁶ Case No. 2011-00425, *Alternative Rate Adjustment Filing of Milburn Water District*, (Ky. PSC Mar. 5, 2012).

STAFF'S FINDINGS

In its Report, Staff proposed adjustments to both revenues and expenses. The Commission accepts the findings contained in Staff's Report.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Milburn requires an increase in revenues of \$10,401, or 20.28 percent above pro forma present rate revenues, as shown below:

	Staff
Operating Expenses	\$ 53,926
Divided by: Operating Ratio	<u>88%</u>
Overall Revenue Requirement	61,279
Add: Interest Expense	414
Less: Other Operating Revenue	<u>0</u>
Revenue Requirement - Water Rates	61,693
Less: Normalized Revenue from Water Service	<u>(51,292)</u>
Required Revenue Increase	<u>\$ 10,401</u>
Percentage Increase	<u>20.28%</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 Milburn's customers. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$61,693. The revenue required is determined to be reasonable by the Commission herein. The monthly bill of a typical residential customer using 4,000 gallons will increase \$33.20 to \$39.94, an increase of \$6.74, or approximately 20.30 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. By applying the Operating Ratio Method, as generally accepted by the Commission, Staff found that Milburn District's Overall Revenue Requirement is \$61,279 and that a \$10,401 revenue increase, or 20.28 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.
3. The water service rates proposed by Milburn 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 Milburn are denied.
3. The rates set forth in the Appendix to this Order are approved for services rendered by Milburn on and after the date of this Order.
4. Within 20 days of the date of this Order, Milburn 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.
5. This case is hereby closed and will be removed from the Commission's docket.

By the Commission

ENTERED
MAR 07 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2018-00314

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00314 DATED **MAR 07 2019**

The following rates and charges are prescribed for the customers in the area served by Milburn Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

First 2,000 Gallons	\$21.82	Minimum Bill
Next 3,000 Gallons	9.06	per 1,000 Gallons
Next 5,000 Gallons	8.29	per 1,000 Gallons
Next 10,000 Gallons	7.51	per 1,000 Gallons
Over 20,000 Gallons	6.83	per 1,000 Gallons

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