

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MARION COUNTY	)	
WATER DISTRICT FOR AN ORDER	)	
APPROVING THE ESTABLISHMENT OF A	)	CASE NO.
REGULATORY ASSET FOR THE RATE	)	2018-00329
CASE EXPENSES INCURRED BY	)	
LEBANON WATER WORKS COMPANY	)	
AND ORDERED IN CASE NO. 2017-00417	)	

ORDER

On September 26, 2018, Marion County Water District (Marion District) filed an application, pursuant to KRS 278.030(1), KRS 278.040(2), KRS 278.220, and 807 KAR 5:001, Section 14, seeking authorization to establish a regulatory asset to account for the expenses incurred by Marion District to reimburse the rate case expense of contesting Lebanon Water Works Company's (Lebanon) wholesale water increase allowed in Case No. 2017-00417,<sup>1</sup> as well as permission to defer and accumulate appropriate carrying costs associated with the regulatory asset. There are no intervenors in this matter.

BACKGROUND

Lebanon filed an application for an increase in its wholesale rate charged to Marion District on September 13, 2017. Marion District filed a protest letter on September 25, 2017, wherein it alleged that the proposed rate increase was unfair, unjust, and unreasonable in multiple respects. The case proceeded with discovery and a hearing

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<sup>1</sup> 2017-00417 *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC Jul. 12, 2018).

before the Commission. By Order dated July 12, 2018, the Commission denied Lebanon's rate case expense as requested in its brief, but instead ordered that the initial estimate of \$72,000 was all that Lebanon could recover from Marion District. As a result of the July 12, 2018 Order, Lebanon includes a monthly surcharge of the amount of \$2,000 for thirty-six months to Marion District's bill. Marion District states that because it is unable to recover this expense through its purchased water adjustment mechanism, it lacks the ability to pass this surcharge on to its customers in a timely manner. Therefore, Marion District is requesting that it be allowed to establish a regulatory asset for the \$72,000 of Lebanon's rate case expense with an allowance for a carrying charge at Marion District's average weighted cost of long-term debt, or 2.502 percent.<sup>2</sup> Marion District further states that it will seek to amortize this regulatory asset as part of its next base rate application.

### DISCUSSION

As we noted in Case No. 2008-00436:

A regulatory asset is created when a rate-regulated business is authorized by its regulatory authority to capitalize an expenditure that under traditional accounting rules would be recorded as a current expense. The reclassification of an expense to a capital item allows the regulated business the opportunity to request recovery in future rates of the amount capitalized. The authority for establishing regulatory assets arises under the Commission's plenary authority to regulate utilities under KRS 278.040 and the Commission's authority to establish a system of accounts under KRS 278.220. Historically, the Commission has exercised its discretion to approve regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or

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<sup>2</sup> Application, paragraph 8 and Exhibit 2.

nonrecurring expense that over time will result in a saving that fully offsets the cost.<sup>3</sup>

Having reviewed this record and the record in Case No. 2017-00417 and being otherwise sufficiently advised, the Commission finds that Marion District's request for authorization to establish a regulatory asset is reasonable and should be approved. The Commission finds that our decision in applications requesting authority to establish regulatory assets is limited to permitting the utility to establish, for accounting purposes only, deferral accounting to capitalize an expenditure that would otherwise be recorded as a current expense. Our decision in this matter does not touch upon the issue of rate recovery of such costs.

IT IS THEREFORE ORDERED that:

1. Marion District is authorized to establish a regulatory asset for the actual, incremental costs for Lebanon's rate case expense resulting from Case No. 2018-00417.
2. Marion District is authorized to establish a regulatory asset to begin with an initial balance of \$0 and increase each month by \$2,000 for thirty-six (36) months as Marion District pays the rate case expense surcharge to Lebanon. At the end of thirty-six (36) months, the regulatory asset will quit accumulating a principal balance.
3. Marion District is authorized to add a carrying charge to the regulatory asset to account for the time value of money. The carrying charge will be equal to the weighted average of Marion District's long-term debt interest rate, which is 2.502 percent.
4. The regulatory asset accounts established in this case are for accounting purposes only.

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<sup>3</sup> Case No. 2008-00436, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting From Generation Forced Outages* (Ky. PSC Dec. 23, 2008) at 3–4.

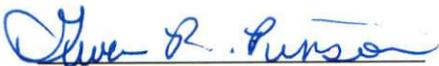
5. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED  
JAN 28 2019  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

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