

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MUHLENBERG COUNTY)	
WATER DISTRICT #3 FOR RATE)	CASE NO.
ADJUSTMENT FOR SMALL UTILITIES)	2018-00346
PURSUANT TO 807 KAR 5:076)	

ORDER

On October 9, 2018, Muhlenberg County Water District #3 (Muhlenberg District #3) filed an application (Application) with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. In its Application, Muhlenberg District #3 requested rates that would increase annual water sales revenues by \$220,918, a 20.7 percent increase to pro forma present rate water sales revenues.

To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated November 19, 2018, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding Muhlenberg District #3's Application. There are no intervenors in this proceeding.

Pursuant to the procedural Order, on January 22, 2019, Staff issued a report (Report) summarizing its findings regarding Muhlenberg District #3's requested rate adjustment. In its Report, Staff found that Muhlenberg District #3's adjusted test-year operations support an overall revenue requirement of \$1,396,475, and that an annual revenue increase of \$278,673, or 26.1 percent, is necessary to generate the overall revenue requirement.

On January 31, 2019, Muhlenberg District #3 filed with the Commission its comments on Staff's Report. Muhlenberg District #3 accepted the findings and recommendations contained in Staff's Report, including the recommended 26.1 percent increase. Muhlenberg District #3 waived its right to a formal hearing and requested that the Commission issue an Order approving the Staff Report and rate increase as soon as possible. With its comments, Muhlenberg District #3 did not request that an informal conference be held.¹ On March 12, 2019, Muhlenberg District #3 filed an affidavit of publication verifying that its revised customer notice was published on February 19, 2019, in conformance with customer notice requirements in 807 KAR 5:076.

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, Muhlenberg District #3's test-year water loss was 15.932 percent. Accordingly, Staff reduced test-year expenses by \$5,352 to account for the 0.932 percent excess water loss.²

BACKGROUND

Muhlenberg District #3 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 2,111 customers in Muhlenberg County and McLean County,

¹ Letter from Muhlenberg District #3 (filed Jan. 31, 2019).

² Staff Report at 10.

Kentucky.³ This is Muhlenberg District #3's first general rate adjustment since July 12, 2012.⁴

TEST PERIOD

The calendar year ended December 31, 2017 was used as the test year to determine the reasonableness of Muhlenberg District #3's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Muhlenberg District #3's pro forma income statement as follows:

	2017 Annual Report	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 1,327,314	\$ (213,771)	\$ 1,113,543
Operating Expenses	1,446,624	(217,726)	\$ 1,228,898
Net Operating Income	\$ (119,310)	\$ 3,955	\$ (115,355)

MODIFICATIONS TO STAFF'S FINDINGS

Muhlenberg District #3 proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In its Report, Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report.

³ Annual Report of Muhlenberg District #3 to the Public Service Commission for the Calendar Year Ended December 31, 2017 (Annual Report) at 12 and 48.

⁴ Case No. 2012-00017, Application of Muhlenberg County Water District No. 3 for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076 (Ky. PSC July 12, 2012).

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Muhlenberg District #3 requires an increase in revenues of \$278,673, or 26.1 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 1,228,898
Divided by: Operating Ratio	<u>88%</u>
Overall Revenue Requirement	<u>1,396,475</u>
Less: Other Operating Revenue	45,500
Interest Income	3,850
Wholesale Water Sales Revenue	0
Gain on Disposition of Utility Property	429
Interest Expense	<u>(20)</u>
Revenue Required From Retail Rates	1,346,716
Less: Pro Forma Present Retail Water Revenue	<u>(1,068,043)</u>
Required Revenue Increase	<u>\$ 278,673</u>
Percent Retail Revenue Increase	<u>26.1%</u>

RATE DESIGN

Staff determined that a 26.1 percent increase is warranted. Muhlenberg District #3 requests an across-the-board increase of 26.1 percent to its current water service rates. The requested 26.1 percent increase will produce additional revenues sufficient for Muhlenberg District #3 to meet the Debt Service Coverage (DSC) ratio requirement of Muhlenberg District #3's lenders.

The Commission finds that in the absence of a cost-of-service study the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to Muhlenberg District #3's customers. The monthly bill of a typical residential customer will increase from \$28.65 to \$36.15, an increase of \$7.50, or 26.2 percent.

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 Commission has historically used an Operating Ratio method to calculate the revenue requirement for water districts or associations with no outstanding long-term debt. Application of the Commission's Operating Ratio method to Muhlenberg District #3's pro forma operations results in an Overall Revenue Requirement of \$1,396,475. A revenue increase of \$278,673 from water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by Muhlenberg District #3 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 Muhlenberg District #3 are denied.

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

4. Within 20 days of the date of entry of this Order, Muhlenberg District #3 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. Muhlenberg District #3 shall use the mid-point of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the Application and agreed upon by Staff, to depreciate water plant assets 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.

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

By the Commission

ENTERED
APR 08 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director for *Administrative Services*

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00346 DATED **APR 08 2019**

The following rates and charges are prescribed for the customers in the area served by Muhlenberg District #3. 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	\$ 22.39	Minimum bill
Next	8,000	Gallons	6.88	per 1,000 Gallons
Next	10,000	Gallons	6.51	per 1,000 Gallons
Next	30,000	Gallons	6.04	per 1,000 Gallons
Over	50,000	Gallons	5.69	per 1,000 Gallons

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