

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH HOPKINS WATER )  
DISTRICT FOR AN ALTERNATIVE RATE ) CASE NO.  
ADJUSTMENT ) 2018-00387

ORDER

On November 21, 2018, South Hopkins Water District (South Hopkins District) filed an application (Application) with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service.

In its Application, South Hopkins District requested rates that would increase annual water sales revenues by \$88,581, a 7.53 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 December 19, 2018, which, among other things, required the Commission Staff (Staff) to file a report (Report) containing its findings regarding South Hopkins District's Application.

Pursuant to the procedural Order, on March 5, 2019, Staff issued a Report summarizing its findings regarding South Hopkins District's requested rate adjustment. In its Report, Staff found that South Hopkins District's adjusted test-year operations support an overall revenue requirement of \$1,619,927, and that an annual revenue increase of \$60,153, or 5.12 percent, is necessary to generate the overall revenue requirement.

On March 18, 2019, South Hopkins District filed with the Commission its comments on Staff's report. South Hopkins District accepted Staff's findings in the Report; however the utility requested that the Commission adjust the recommended rates from Staff's Report by taking into consideration the purchase water adjustment (PWA) filed by South Hopkins District on March 13, 2019 in Case No. 2019-00091.<sup>1</sup> With its comments, South Hopkins District did not include a request that an informal conference or hearing be held.<sup>2</sup>

### 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 District's test-year water loss was 17.69 percent. Accordingly, Staff reduced test-year expenses by \$20,679 to account for the 2.69 percent excess water loss.<sup>3</sup>

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

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<sup>1</sup> Case No. 2019-00091, *Purchased Water Adjustment Filing of South Hopkins Water District* (Mar. 14, 2019).

<sup>2</sup> Letter from Jon Blalock, Superintendent, South Hopkins Water District, to Gwen R. Pinson, Executive Director, Public Service Commission (Mar. 18, 2019).

<sup>3</sup> Staff Report at 9-10.

## BACKGROUND

South Hopkins District 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 2,981 customers in Caldwell and Hopkins counties, Kentucky.<sup>4</sup> South Hopkins District does not produce any of its own water; rather, it purchases its water from the cities of Dawson Springs and Madisonville. South Hopkins District last adjusted its rates pursuant to 807 KAR 5:076 on March 30, 2018.

## TEST PERIOD

The calendar year ended December 31, 2017, was used as the test year to determine the reasonableness of South Hopkins District'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 District's pro forma income statement as follows:

	<u>2017 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Staff Pro Forma Operations</u>
Operating Revenues	\$ 1,435,391	\$ 122,415	\$ 1,557,806
Operating Expenses	<u>1,585,664</u>	<u>(73,325)</u>	<u>1,512,339</u>
Net Operating Income	(150,273)	195,740	45,467
Interest Income	<u>1,968</u>	<u>                    </u>	<u>1,968</u>
Income Available for Debt Service	<u>\$ (148,305)</u>	<u>\$ 195,740</u>	<u>\$ 47,435</u>

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<sup>4</sup> Annual Report of South Hopkins Water District to the Public Service Commission for the Calendar Year Ended December 31, 2017 (Annual Report) at 12 and 50.

## MODIFICATIONS TO STAFF'S FINDINGS

South Hopkins District 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, but makes the following modifications to take into account the results of the PWA that went into effect by Order dated April 10, 2019, in Case No. 2019-00091.

	<u>Staff Pro Forma Operations</u>	<u>PWA Adjustments</u>	<u>PWA Pro Forma Operations</u>
Operating Revenues	\$ 1,557,806	\$ 5,670	\$ 1,563,476
Operating Expenses	<u>1,512,339</u>	<u>2,253</u>	<u>1,514,592</u>
Net Operating Income	45,467	3,417	48,884
Interest Income	<u>1,968</u>	<u></u>	<u>1,968</u>
Income Available for Debt Service	<u>\$ 47,435</u>	<u>\$ 3,417</u>	<u>\$ 50,852</u>

## REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, South Hopkins District requires an increase in revenues of \$56,736, or 4.82 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 1,514,592
Plus: Average Annual Principal and Interest Payments	89,657
Additional Working Capital	<u>17,931</u>
Overall Revenue Requirement	1,622,180
Less: Other Operating Revenue	(64,838)
Interest Income	(1,968)
Existing Wholesale Sales Revenue	<u>(321,266)</u>
Revenue Required from Rates	1,234,108
Less: Pro Forma Present Rate Service Revenues	<u>(1,177,372)</u>
Required Revenue Increase	<u>\$ 56,736</u>
Percentage Increase	<u>4.82%</u>

## RATE DESIGN

South Hopkins District requested to increase its current retail water service rates by an even, across-the-board percentage increase. 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 South Hopkins District's retail customers.

The rates in the Appendix attached to this Order are approximately a 4.82 percent increase to the rates approved in South Hopkins District's PWA Case No. 2019-00091 that went into immediate effect by Order dated April 10, 2019. The rates in the Appendix attached to this Order will produce water rate revenues from South Hopkins District's retail customers sufficient to recover the revenue required from rates of \$1,234,108, which has been determined to be reasonable by the Commission herein. The monthly bill of a typical residential customer using 3,000 gallons of water will increase from \$24.32 to \$25.51, an increase of \$1.19, or 4.89 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 a debt service coverage (DSC) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to South Hopkins District's pro forma operations results in an overall revenue requirement of

\$1,622,180. A revenue increase of \$56,736 from retail water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by South Hopkins District 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 South Hopkins District are denied.

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

4. Within 20 days of the date of entry of this Order, South Hopkins District 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 closed and removed from the Commission's docket.

By the Commission

ENTERED  
APR 16 2019  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2018-00387



## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00387 DATED **APR 16 2019**

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 Water Rates

##### 5/8 x 3/4- Inch Meter

First	1,000	Gallons	\$ 12.33	Minimum bill
Next	9,000	Gallons	6.59	per 1,000 Gallons
Next	10,000	Gallons	6.12	per 1,000 Gallons
Next	30,000	Gallons	5.66	per 1,000 Gallons
All Over	50,000	Gallons	4.79	per 1,000 Gallons

##### 1-Inch Meter

First	10,000	Gallons	\$ 71.64	Minimum bill
Next	10,000	Gallons	6.12	per 1,000 Gallons
Next	30,000	Gallons	5.66	per 1,000 Gallons
All Over	50,000	Gallons	4.79	per 1,000 Gallons

##### 2-Inch Meter

First	20,000	Gallons	\$ 132.84	Minimum bill
Next	30,000	Gallons	5.66	per 1,000 Gallons
All Over	50,000	Gallons	4.79	per 1,000 Gallons

##### 3-Inch Meter

First	50,000	Gallons	\$ 302.64	Minimum bill
All Over	50,000	Gallons	4.79	per 1,000 Gallons

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