

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MUHLENBERG)	
COUNTY WATER DISTRICT FOR A)	
GENERAL RATE ADJUSTMENT PURSUANT)	CASE NO.
TO THE PROVISIONS OF KRS 278.030 AND)	2006-00248
807 KAR 5:001)	

ORDER

Muhlenberg County Water District (“Muhlenberg District”) has applied for authority to increase its water rates. The rates proposed by Muhlenberg District will increase the average residential bill from \$24.74 to \$31.44, an increase of \$6.70 or 27 percent. Applying the requested rates to Muhlenberg District’s 2005 billing analysis produces a revenue requirement from water rates of \$2,797,325, an increase of \$599,224 or 27.261 percent above normalized revenue from water rates of \$2,198,101. By this Order, we grant the requested relief.

BACKGROUND

Muhlenberg District, a water district organized pursuant to KRS Chapter 74, is a utility subject to Commission jurisdiction. KRS 278.010(3)(d); KRS 278.015; KRS 278.040. It provides retail water service to 6,042 customers in Muhlenberg County,¹

¹ Annual Report of Muhlenberg District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2005 (“2005 Annual Report”) at 27.

Kentucky and wholesale water service to the city of Drakesboro, Kentucky.²
Muhlenberg District last applied for a rate adjustment in 1999.³

PROCEDURE

On June 7, 2006, Muhlenberg District notified the Commission of its intent to file an application for an adjustment of rates. On July 7, 2006, Muhlenberg District tendered its application requesting the Commission to approve its proposed increase in its water rates. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“Attorney General”), requested, and was granted, full intervention by Order dated July 18, 2006.

To determine the reasonableness of the proposed rates, the Commission suspended the rates for 5 months from their effective date pursuant to KRS 278.190(2).⁴ The Commission’s investigation into the proposed rates was not completed within the 5-month suspension period and therefore, in compliance with KRS 278.190(2), Muhlenberg District gave notice of its intent to place the proposed rates into effect. By Order dated January 8, 2007, the Commission directed Muhlenberg District to maintain its records in such a manner that would allow determination of any amount to be refunded, in the event one is ordered upon final resolution of this matter.

² Id. at 30.

³ Case No. 1999-00512, The Application of Muhlenberg County Water District for a General Rate Adjustment Pursuant to the Provisions of KRS 278.030 and 807 KAR 5:001 (Ky. PSC December 21, 2000).

⁴ The proposed rates were suspended from August 7, 2006 up to and including January 6, 2007.

Commission Staff performed a limited financial review of Muhlenberg District's operations and, on April 17, 2007, released its initial report ("Staff Report") containing Staff's findings and recommendations regarding the proposed rates. The Staff Report gave the parties leave to file written comments upon Staff's findings and recommendations or to request a conference or hearing no later than April 24, 2007. On April 24, 2007, the Muhlenberg District submitted their comments. However, no party has requested a conference or public hearing.

STAFF REPORT RECOMMENDATIONS

The following are the Commission's modifications to the findings and recommendations contained in the Staff Report:

Depreciation

Muhlenberg District originally proposed to increase its calendar year 2004 depreciation expense of \$271,609 by \$73,577 to reflect depreciation on capital improvement projects that were placed into service in 2005.⁵ The depreciation schedule for the calendar year 2005 reflected depreciation expense of \$280,781, an increase of \$9,172 over the amount Muhlenberg District reported for calendar year 2004. By increasing the depreciation life for the Beach Grove water tank from 25 to 45 years and including a full year of depreciation for the utility plant placed into service in 2005, Staff increased Muhlenberg District's 2005 depreciation expense of \$280,781 by \$362 to a pro forma level of \$281,143.

In its response to the Staff Report, Muhlenberg District submitted a depreciation schedule listing the capital projects that were completed and placed in service in 2006.

⁵ Application, Exhibit 13, Proposed Adjustments to Test Period Operations at 3.

Muhlenberg District requests that Staff’s pro forma depreciation expense of \$281,143 be increased by \$84,954 to reflect a full year of depreciation for the capital projects listed in its 2006 asset schedule.⁶

Overall, Muhlenberg District’s proposed depreciation adjustment seems reasonable with the exception of the depreciation of the “US 431 Water Main Relocation (grant reimbursed)” (“Main Relocation”). In reviewing the schedule, the Commission notes that Muhlenberg District is depreciating the “US 431 Water Main Extension” over 50 years, but is using a 10-year depreciation life for the Main Relocation. Since both projects are for main replacements, they should be depreciated over the same estimated useful life. By depreciating the Main Relocation over 50 years, the Commission is reducing Muhlenberg District’s depreciation adjustment by \$9,934⁷ to \$75,020. Accordingly, the Commission is increasing Staff’s pro forma depreciation expense by \$75,020.

Debt Service

Muhlenberg District based its revenue requirement on an average annual debt service of \$411,936 that included the principal and interest payments for the revenue bonds Muhlenberg District expected to issue in 2006. As of the date of the Staff Report, Muhlenberg District had not tendered its request to the Commission for authorization to issue its proposed bonds and, therefore, Staff believed that the projected debt service payments for the proposed bonds did not meet the rate-making criteria of being known

⁶ Comments of Muhlenberg District to PSC Staff Report at 2.

⁷ Main Relocation – Proposed	\$124,174 ÷ 10 Years =	\$	12,417
Main Relocation – Commission	\$124,174 ÷ 50 Years =	-	2,483
Commission Adjustment		\$	<u>9,934</u>

and measurable. For this reason, Staff's debt service of \$289,460 excluded the projected debt service for the 2006 bonds.

On April 20, 2007, Muhlenberg District submitted its application, which was docketed as Case No. 2007-00163,⁸ requesting Commission authorization to obtain a \$1,897,000 loan from the Kentucky Rural Water Finance Corporation ("KRWFC").⁹ The proposed loan will have a 20-year term with interest rates varying from 4.50 to 5.00 percent per annum.¹⁰ The proceeds of the KRWFC loan will be used to refinance Muhlenberg District's 2007 short-term loan of \$1,790,000, which matures on August 1, 2007.¹¹

In its response to the Staff Report, Muhlenberg District requests the Commission to increase Staff's debt service of \$289,460 by \$150,234¹² to reflect the 3-year average debt service for its KRWFC loan. Given that Muhlenberg District has submitted its application seeking Commission approval of its long-term loan, an adjustment to reflect the associated debt service would now meet the rate-making criteria of known and measurable. Accordingly, the Commission accepts Muhlenberg District's proposed

⁸ Case No. 2007-00163, The Application of the Muhlenberg Water District to Issue Securities in the Approximate Principal Amount of \$1,897,000 Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001.

⁹ Application at 1.

¹⁰ Id. at 4.

¹¹ Id. at 3.

¹² Comments of Muhlenberg District to PSC Staff Report at 3.

adjustment and is increasing Staff's recommended debt service by \$150,234 to a revised debt service level of \$439,694.

Revenue Requirement

Applying the proposed rates to Muhlenberg District's 2005 billing analysis produces a revenue requirement from water rates of \$2,797,325. Using a 3-year average debt service of \$289,460, Staff's recommended pro forma operations, and a 1.2x debt service coverage, Staff calculated a revenue requirement from rates of \$2,565,051, which is \$232,274 less than the amount Muhlenberg District requested. By modifying Staff's recommendations to reflect additional depreciation expense of \$75,020 and additional debt service of \$150,234, the Commission has determined that Muhlenberg District could justify a revenue requirement from water sales of \$2,464,189 to \$2,820,352 as shown in Table 1 below:

Table 1: Revenue Requirement Range		
	Minimum	Maximum
3-Year Average Debt Service	\$ 439,694	\$ 439,694
Multiplied by: Debt Service Coverage	x 1.2	x 1.2
Income From Operations	\$ 527,633	\$ 527,633
Add: Operating Expenses	1,957,899	1,957,899
Depreciation	0	356,163
Taxes Other Than Income	+ 55,635	+ 55,635
Total Revenue Requirement	\$ 2,541,167	\$ 2,897,330
Less: Interest & Dividend Income	- 6,852	- 6,852
Revenue Requirement from Operations	\$ 2,534,315	\$ 2,890,478
Less: Other Operating Revenues	- 70,126	- 70,126
Revenue Requirement from Water Sales	\$ 2,464,189	\$ 2,820,352

Muhlenberg District's requested revenue requirement from water sales will allow the water district to meet its pro forma operating expenses and the debt service requirements of its long-term debt instruments, and to partially fund depreciation expense. Therefore, Muhlenberg District should be allowed to increase its rates to

generate the requested revenue requirement from water sales of \$2,797,325. Upon reviewing the financial information contained herein, if Muhlenberg District deems that its requested revenue is insufficient, then Muhlenberg District may apply for rehearing to revise its requested revenue requirement. If Muhlenberg District chooses to request rehearing, the rates contained in Appendix B will produce the revenue requirement Muhlenberg District could justify of \$2,820,352.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. The recommendations and findings contained in the Staff Report, as modified herein, are supported by the evidence of record and are reasonable.
2. Muhlenberg District's proposed water rates will produce annual revenues from water sales of \$2,797,325.
3. The rates contained in Appendix B will produce the revenue requirement Muhlenberg District could justify of \$2,820,352.

IT IS THEREFORE ORDERED that:

1. The recommendations and findings contained in the Staff Report, as modified herein, are adopted and incorporated by reference into this Order as if fully set out herein.
2. Muhlenberg District's proposed water rates, which are set forth in Appendix A, are approved for service rendered by Muhlenberg District on and after the date of this Order.
3. Within 30 days of the date of this Order, Muhlenberg District shall file with the Commission its revised tariff setting out the rates approved herein.

4. Three years from the date of this Order, Muhlenberg District shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

Done at Frankfort, Kentucky, this 3rd day of May, 2007.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00248 DATED May 3, 2007

The following rates are prescribed for the customers in the area served by the Muhlenberg County 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.

RATES AND CHARGES

5/8 x 3/4 Inch Connection

First	2,000 gallons	\$	19.08	Minimum bill
Next	8,000 gallons		6.18	per 1,000 gallons
Next	10,000 gallons		5.59	per 1,000 gallons
Next	30,000 gallons		5.02	per 1,000 gallons
Over	50,000 gallons		4.44	per 1,000 gallons

1 Inch Connection

First	5,000 gallons	\$	37.62	Minimum bill
Next	5,000 gallons		6.18	per 1,000 gallons
Next	10,000 gallons		5.59	per 1,000 gallons
Next	30,000 gallons		5.02	per 1,000 gallons
Over	50,000 gallons		4.44	per 1,000 gallons

1-1/2 Inch Connection

First	11,000 gallons	\$	74.11	Minimum bill
Next	9,000 gallons		5.59	per 1,000 gallons
Next	30,000 gallons		5.02	per 1,000 gallons
Over	50,000 gallons		4.44	per 1,000 gallons

2 Inch Connection

First	16,000 gallons	\$	102.06	Minimum bill
Next	4,000 gallons		5.59	per 1,000 gallons
Next	30,000 gallons		5.02	per 1,000 gallons
Over	50,000 gallons		4.44	per 1,000 gallons

3 Inch Connection

First	26,000 gallons	\$	154.54	Minimum bill
Next	24,000 gallons		5.02	per 1,000 gallons
Over	50,000 gallons		4.44	per 1,000 gallons

4 Inch Connection

First	36,000 gallons	\$	204.74	Minimum bill
Next	14,000 gallons		5.02	per 1,000 gallons
Over	50,000 gallons		4.44	per 1,000 gallons

Wholesale		\$	3.45	per 1,000 gallons
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00248 DATED May 3, 2007

RATES AND CHARGES

5/8 x 3/4 Inch Connection

First	2,000 gallons	\$	19.27	Minimum bill
Next	8,000 gallons		6.24	per 1,000 gallons
Next	10,000 gallons		5.65	per 1,000 gallons
Next	30,000 gallons		5.07	per 1,000 gallons
Over	50,000 gallons		4.48	per 1,000 gallons

1 Inch Connection

First	5,000 gallons	\$	37.98	Minimum bill
Next	5,000 gallons		6.24	per 1,000 gallons
Next	10,000 gallons		5.65	per 1,000 gallons
Next	30,000 gallons		5.07	per 1,000 gallons
Over	50,000 gallons		4.48	per 1,000 gallons

1-1/2 Inch Connection

First	11,000 gallons	\$	74.80	Minimum bill
Next	9,000 gallons		5.65	per 1,000 gallons
Next	30,000 gallons		5.07	per 1,000 gallons
Over	50,000 gallons		4.48	per 1,000 gallons

2 Inch Connection

First	16,000 gallons	\$	103.03	Minimum bill
Next	4,000 gallons		5.65	per 1,000 gallons
Next	30,000 gallons		5.07	per 1,000 gallons
Over	50,000 gallons		4.48	per 1,000 gallons

3 Inch Connection

First	26,000 gallons	\$	156.02	Minimum bill
Next	24,000 gallons		5.07	per 1,000 gallons
Over	50,000 gallons		4.48	per 1,000 gallons

4 Inch Connection

First	36,000 gallons	\$	206.71	Minimum bill
Next	14,000 gallons		5.07	per 1,000 gallons
Over	50,000 gallons		4.48	per 1,000 gallons

Wholesale		\$	3.48	per 1,000 gallons
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