

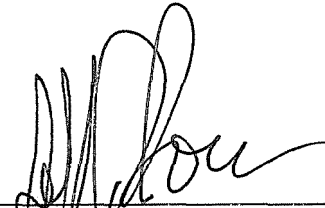
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CRITTENDEN-LIVINGSTON)
WATER DISTRICT FOR AN ADJUSTMENT IN) CASE NO.
RATES PURSUANT TO THE ALTERNATIVE) 2012-00390
RATE FILING PROCEDURE FOR SMALL)
UTILITIES)

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of September 14, 2012, the attached report containing the findings and recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding.



Jeff Devouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED OCT 26 2012

cc: Parties of Record

STAFF REPORT
ON
CRITTENDEN-LIVINGSTON WATER DISTRICT
CASE NO. 2012-00390

Crittenden-Livingston Water District ("Crittenden-Livingston District"), a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 3,485 customers in Crittenden and Livingston counties, Kentucky.¹ On August 30, 2012, Crittenden-Livingston District filed an application with the Commission requesting an adjustment to its rates for retail water service.²

Crittenden-Livingston District's pro forma operations support a revenue requirement from rates of \$2,653,094, an increase of \$643,671, or 32.03 percent, above the normalized revenue from rates of \$2,009,423. To lessen the impact of its requested rate adjustment on its ratepayers, Crittenden-Livingston District is limiting its request to an increase of 17 percent, or \$343,414, in additional revenues from rates and is proposing a three-step phase in of its requested increase.

The first phase will produce annual operating revenues from water sales of \$2,134,177, an increase of \$124,754, or approximately 6.2 percent, over normalized revenues from water sales of \$2,009,423. The second phase will become effective 14 months from the date the Phase I rates take effect and those rates will produce annual operating revenues from water sales of \$2,241,227, an increase of \$107,050, or

¹ *Annual Report of Crittenden-Livingston Water District to the Public Service Commission for the Calendar Year Ended December 31, 2011* ("2011 Annual Report") at 5 and 27.

² The Application can be found at: <http://psc.ky.gov/Home/Library?type=Cases&folder=2012cases/2012-00390>.

approximately 5.0 percent, over normalized revenues from the first phase in. The third, and final, phase will become effective 14 months from the date the Phase II rates take effect and those rates will produce annual operating revenues from water sales of \$2,352,837, an increase of \$111,610, or approximately 5.0 percent, over normalized revenue from the second phase in.

The application was prepared with the assistance of Commission Staff ("Staff") pursuant to a written request from Crittenden-Livingston District. To prepare the application, a limited financial review was conducted of Crittenden-Livingston District's test-year operations for the calendar year ending December 31, 2011. Staff performed its review with assistance from Crittenden-Livingston District's employees. Staff members, Mark Frost and Eddie Beavers, performed the limited financial review of Crittenden-Livingston District's test-year operations. Mr. Frost is responsible for the calculation of revenue requirements. Mr. Beavers is responsible for the determination of the rates.

The scope of Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable changes to test-year operations were identified and adjustments were made when their effects were deemed to be material. Insignificant or immaterial discrepancies were not pursued and were not addressed.

After completing the financial review, Staff assisted Crittenden-Livingston District in preparing the financial exhibits attached to the application. The financial exhibits attached to the application are listed below followed by a summary of each exhibit and Staff's comments and recommendations:

1. Pro Forma Operating Statement, Attachment D;
2. Required Revenue Increase, Attachment E; and
3. Billing Analysis and Proposed Rates, Attachment F.

Pro forma Operating Statement

Crittenden-Livingston District reports test-year Income Available to Service Debt of \$422,610. It proposes eight pro forma adjustments to operating revenues and operating expenses that increases test-year Income Available to Service Debt by \$224,956 to a pro forma level of \$647,566. The impact Crittenden-Livingston District's pro forma adjustments have on Net Income Available to Service Debt is shown below:

Income Available to Service Debt, Test Year	\$	422,610
Operating Revenues:		
Water Sales		27,162
Operating Expenses:		
Salaries and Wages		74,086
Employee Benefits		(6,486)
Purchased Power		5,262
Chemicals		6,622
Materials and Supplies		8,117
Depreciation		110,987
Taxes Other Than Income		<u>(794)</u>
Income Available to Service Debt, Pro Forma	\$	<u>647,566</u>

Staff agrees with the adjustments that Crittenden-Livingston District proposes to make to its test-year operations and recommends they be accepted by the Commission. Staff has additional comments regarding the pro forma adjustments that have a material impact on Crittenden-Livingston District's operations. These pro forma adjustments are for salaries and wages, line loss in excess of 15 percent, and the depreciable lives assigned to assets.

Salaries & Wage. Crittenden-Livingston District proposes to decrease its Salaries and Wages expense of \$406,484 by \$74,086 to a pro forma level of \$332,398 to reflect:

1. A reduction of \$11,113³ based on the current employee staff level, the actual hours worked in the test year, and the current employee wage rates.

2. In Case No. 2012-00077,⁴ Crittenden-Livingston District was granted a Certificate of Public Convenience and Necessity to purchase and install an automated meter reading system (“AMR Project”). A reduction of \$39,453 to reflect the estimated labor savings Crittenden Livingston District will realize upon completion of its AMR Project.

3. Crittenden-Livingston District installed 67 new meters in the test year. The labor cost for each newly installed meter is \$750. The installation of 67 new meters results in a labor cost of \$23,520 which is being removed from the expense account and capitalized along with the cost of the meters.

Unaccounted for Water Loss. Crittenden-Livingston District proposes to decrease test-year Purchased Power Expense and Chemical Expense by \$5,262 and \$6,622, respectively. Crittenden-Livingston District's test-year line loss of 15.68 percent exceeds the Commission's allowable limit of 15 percent. To comply with the

³ \$389,371 (Pro Forma Salaries and Wages – Employee expense) + \$6,000 (Test-Year Commissioner Fees) = \$395,371 - \$406,484 (Test-Year Salaries and Wages expense) = \$11,113.

⁴ Case No. 2012-00077, *Application of Crittenden-Livingston Water District for Authority to Enter Into A Loan Agreement with the Kentucky Infrastructure Authority and for a Certificate of Convenience and Necessity to Acquire and Install Automated Meter Reading Equipment* (Ky. PSC Mar. 30, 2012).

requirements of 807 KAR 5:066, Section 6(3),⁵ Crittenden-Livingston District is eliminating \$11,884 from its variable costs of water production.

Depreciable Lives. Crittenden-Livingston District recognizes that the Commission has historically relied on the National Association of Regulatory Utility Commissioners Study of Depreciation Practices for Small Water Utilities ("NARUC Study"), dated August 15, 1979, to judge the reasonableness of a utility's depreciation practices.⁶ Crittenden-Livingston District proposes changes to the depreciable lives assigned to many of its water assets using the NARUC Study as the basis for its new lives. Staff recommends the Commission accept Crittenden-Livingston District's proposal. If the Commission accepts Staff's depreciation life recommendation, it should order that the lives assigned to the assets in Crittenden-Livingston District's application be used for accounting purposes in all future reporting periods.

Required Revenue Increase

As shown in Table E1 of Attachment E to the application, Crittenden-Livingston District determined that a revenue increase of \$643,671, or 32 percent, could be justified. However, Crittenden-Livingston District decided to request rates that would provide an increase in revenue of \$343,414, or 17 percent. A condensed calculation of the required revenue increase is shown below.

Pro Forma Operating Expenses	\$ 1,415,784
Add: Five-Year Average Debt Service	1,076,676

⁵ 807 KAR 5:066, Section 6(3), states: "... for rate making purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of the total water produced and purchased, excluding water used by a utility in its own operations."

⁶ See, e.g., Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC November 21, 2007).

Debt Service Coverage	204,831
Debt Service Fee	<u>9,730</u>
Total Revenue Requirement	2,707,021
Less: Total Operating Revenues and Income	<u>(2,063,350)</u>
Required Revenue Increase	<u>\$ 643,671</u>

The detailed calculation of pro forma operating expenses in the amount of \$1,415,784⁷ and the pro forma present rate revenue and other revenues in the amount of \$2,063,350⁸ is shown in Table D1 of Attachment D to the application. These revenues and expenses result from the adjustments to test-year operations previously recommended by Staff. Staff recommends the Commission account for the effects of these adjustments to test-year operations when calculating the required revenue increase.

The calculation of the annual debt service requirement of \$1,076,676 is detailed in the application at Table E2 of Attachment E. The amount includes the five-year average principal and interest payments on all debt instruments outstanding at the time the application was filed. These debts include two loans payable to Kentucky Rural Water Finance Corporation ("KRWFC"); two loans payable to the Kentucky Infrastructure Authority ("KIA"); four bond issuances payable to the United States Department of Agriculture Rural Development ("RD"); and one loan payable to the Kentucky Association of Counties ("KAoC").

⁷ \$860,931 (Pro Forma Operation and Maintenance Expenses) + \$505,978 (Depreciation) + \$14,011 (Amortization) + \$34,864 (Payroll Tax) = \$1,415,784.

⁸ \$2,009,423 (Revenue - Water Sales) + \$51,828 (Other Operating Revenue) + \$2,099 (Non-Operating Income) = \$2,063,350.

In addition to the principal and interest payments, a coverage requirement was added to the KIA loans equal to 10 percent of their annual principal and interest payments and a 20 percent coverage was included for the RD, KRWFC, and KAoC indebtedness. These coverages are required by the lending agencies. Also, an annual service fee was assessed by KIA, KRWFC, and KAoC. Commission approval was sought and obtained for all debts listed on Table E2.

As previously discussed, Crittenden-Livingston District determined that an overall revenue increase in water sales of \$643,671 is warranted. It requested retail rates that will generate additional annual revenues of only \$343,414. While this level of revenue does not meet the full requirement, as demonstrated below, it does provide net revenues that exceed the debt service coverage ratios required by Crittenden-Livingston District's lending agencies and is, therefore, appropriate.

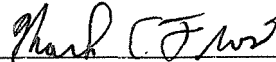
Total Revenue Requirement – Requested	\$ 2,406,764
Less: Pro Forma Operation and Maintenance Exp.	(860,931)
Include Unaccounted for Water Loss Adj.	(11,884)
Taxes Other Than Income Tax	(34,864)
Annual Debt Service Fees	<u>(9,730)</u>
Income Available for Debt Service, Pro Forma	\$ 1,489,355
Divided by: Five Year Average Debt Service	<u>1,076,676</u>
Debt Service Coverage	<u><u>1.38</u></u>

Recommended Rates and Billing Analysis

The rates requested produce the additional water revenue that were determined by increasing the current retail water rates evenly across the board by the percentages of the requested revenue increases. These rates are shown in the Appendix attached hereto. The billing analyses showing that these rates generate the appropriate level of

revenues are in Attachment F to the application. Staff recommends the Commission approve the water rates appended hereto as requested in Crittenden-Livingston District's application.

Signatures



Prepared by: Mark Frost
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis



Prepared by: Eddie Beavers
Rate Analyst, Communications, Water
and Sewer Rate Design Branch
Division of Financial Analysis

APPENDIX
STAFF REPORT, CASE NO. 2012-00390
STAFF'S RECOMMENDED RATES

Proposed Rates – Phase I

<u>5/8-inch Meter</u>	<u>Proposed Rates</u>
First 1,000 gallons	\$16.99 Minimum Bill
Next 9,000 gallons	9.66 per 1,000 gallons
Next 10,000 gallons	8.28 per 1,000 gallons
All Over 20,000 gallons	6.53 per 1,000 gallons
<u>1-inch Meter</u>	<u>Proposed Rates</u>
First 5,000 gallons	\$55.63 Minimum Bill
Next 5,000 gallons	9.66 per 1,000 gallons
Next 10,000 gallons	8.28 per 1,000 gallons
All Over 20,000 gallons	6.53 per 1,000 gallons
<u>2-inch Meter</u>	<u>Proposed Rates</u>
First 15,000 gallons	\$145.33 Minimum Bill
Next 5,000 gallons	8.28 per 1,000 gallons
All Over 20,000 gallons	6.53 per 1,000 gallons
Bulk Sales	\$6.53 per 1,000 gallons
Wholesale	\$2.34 per 1,000 gallons

Proposed Rates – Phase II

Phase II Rates will become effective 14 months from the date the Phase I rates take effect.

<u>5/8-inch Meter</u>	<u>Proposed Rates</u>
First 1,000 gallons	\$17.84 Minimum Bill
Next 9,000 gallons	10.14 per 1,000 gallons
Next 10,000 gallons	8.69 per 1,000 gallons
All Over 20,000 gallons	6.86 per 1,000 gallons
<u>1-inch Meter</u>	<u>Proposed Rates</u>
First 5,000 gallons	\$58.40 Minimum Bill
Next 5,000 gallons	10.14 per 1,000 gallons
Next 10,000 gallons	8.69 per 1,000 gallons
All Over 20,000 gallons	6.86 per 1,000 gallons
<u>2-inch Meter</u>	<u>Proposed Rates</u>
First 15,000 gallons	\$152.55 Minimum Bill
Next 5,000 gallons	8.69 per 1,000 gallons
All Over 20,000 gallons	6.86 per 1,000 gallons

Bulk Sales	\$6.86 per 1,000 gallons
Wholesale	\$2.46 per 1,000 gallons

Proposed Rates – Phase III

Phase III Rates will become effective 14 months from the date the Phase II rates take effect.

<u>5/8-inch Meter</u>		<u>Proposed Rates</u>
First	1,000 gallons	\$18.73 Minimum Bill
Next	9,000 gallons	10.65 per 1,000 gallons
Next	10,000 gallons	9.12 per 1,000 gallons
All Over	20,000 gallons	7.20 per 1,000 gallons

<u>1-inch Meter</u>		<u>Proposed Rates</u>
First	5,000 gallons	\$61.33 Minimum Bill
Next	5,000 gallons	10.65 per 1,000 gallons
Next	10,000 gallons	9.12 per 1,000 gallons
All Over	20,000 gallons	7.20 per 1,000 gallons

<u>2-inch Meter</u>		<u>Proposed Rates</u>
First	15,000 gallons	\$160.18 Minimum Bill
Next	5,000 gallons	9.12 per 1,000 gallons
All Over	20,000 gallons	7.20 per 1,000 gallons

Bulk Sales	\$7.20 per 1,000 gallons
Wholesale	\$2.58 per 1,000 gallons

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