

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING FOR) CASE NO.
RATTLESNAKE RIDGE WATER DISTRICT) 2013-00338

ORDER

On October 14, 2013, Rattlesnake Ridge Water District ("Rattlesnake Ridge") filed an application with the Commission requesting to adjust its rates for water service pursuant to 807 KAR 5:076. By this Order, the Commission approves rates that will increase the monthly bill of a retail customer who uses 5,000 gallons of water per month from \$51.70 to \$66.68, or 29 percent.

After reviewing the application and Rattlesnake Ridge's records, Commission Staff ("Staff") submitted a report on December 16, 2013, wherein it found that the Commission should approve the rates requested by Rattlesnake Ridge. On December 20, 2013, Rattlesnake Ridge agreed with Staff's findings and requested that the case be submitted for a Commission decision without a hearing.

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

1. Rattlesnake Ridge is a water district organized pursuant to KRS Chapter 74. It owns and operates facilities that distribute water to approximately 4,015 customers in Carter, Elliot, Lawrence, Lewis, and Morgan counties, Kentucky.¹

¹ Annual report of Rattlesnake Ridge District to the Public Service Commission for the Calendar Year Ending December 31, 2012 at 5 and 27.

2. The calendar year ending December 31, 2012, should be used as the test year to determine the reasonableness of Rattlesnake Ridge's existing and proposed rates.

3. Based upon pro forma test-year operations, Rattlesnake Ridge's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable charges, are \$2,053,498 and \$2,054,372, respectively.²

4. Rattlesnake Ridge currently has 14 outstanding bond issues payable to the United States Department of Agriculture Rural Development, one Kentucky Rural Water Finance Corporation loan, one Kentucky Area Development District lease, and four subordinate loans. The five-year average principal and interest payments for the years 2014 through 2018 on all instruments of debt is \$493,531.³

² Staff Report at 6.

Revenues and Income	
Pro Forma Present Rate Water Sales	\$ 1,977,861
Other Operating Income	75,571
Interest Income	<u>66</u>
Total	<u>\$ 2,053,498</u>
Operating Expenses	
Operation and Maintenance Expenses	\$ 1,324,674
Depreciation Expense	692,892
Taxes Other Than Income	<u>36,806</u>
Total	<u>\$ 2,054,372</u>

³ Staff Report at 22.

5. The Commission has historically used the Debt Service Coverage Methodology to calculate the revenue requirements of water districts with long-term debt.

6. Applying the Debt Service Coverage Methodology to Rattlesnake Ridge's pro forma operations and using a 120 percent ratio results in a total revenue requirement from all revenue sources of \$2,642,481, and water sales revenues of \$2,566,844.⁴

7. Rattlesnake Ridge calculated the water service rates requested in its Application by increasing all existing rates by approximately 29.02 percent.

8. An even distribution of the revenue increase to existing rates results in an equitable spread of the revenue increase to Rattlesnake Ridge's customers.

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Pro Forma Operating Expenses	\$ 2,054,372
Plus: Average Principal and Interest Payments	493,531
Additional Working Capital	<u>94,578</u>
Overall Revenue Requirement	2,642,481
Less: Other Operating Income	(75,571)
Interest Income	<u>(66)</u>
Revenue Required from Rates	2,566,844
Less: Pro Forma Present Rate Revenues	<u>(1,977,861)</u>
Revenue Increase Warranted	<u>\$ 588,983</u>
Percent Increase	<u>29.78%</u>

9. The rates requested by Rattlesnake Ridge will produce \$2,551,836 in annual water sales revenues, or 99.42 percent of the water sales revenues warranted.⁵

10. The rates requested by Rattlesnake Ridge, with which Staff agreed, are shown in Appendix A. These rates are fair, just, and reasonable and should be approved for service rendered on and after the date of this Order.

11. Rattlesnake Ridge presently uses service lives for four groups of assets that are at variance⁶ with those found in a survey of the National Association of Regulatory Utility Commissioners (“NARUC”) that contained “a range of average service lives currently being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice.”⁷

12. The commission has previously used the same survey when establishing the appropriate depreciable lives for water utilities such as Rattlesnake Ridge when historic property records are not maintained in the manner necessary to perform a formal depreciation study⁸ or the utility does not have the financial resources to fund a formal study.⁹ Application of the NARUC Study is appropriate in this instance.

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Annual Water Sales Revenues from Proposed Rates	\$ 2,551,836
Divide by: Annual Water Sales Revenues Warranted	<u>2,566,844</u>
Percentage	<u>99.42%</u>

⁶ Staff Report. Attachment B.

⁷ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 10.

⁸ Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21, 2007).

⁹ Case No. 2012-00278, *Application of Graves County Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Sept. 5, 2012).

13. Rattlesnake Ridge's assignment of service lives for these four groups of assets is not reasonable and should be revised for ratemaking and accounting purposes.¹⁰

14. Appendix B to this Order sets forth the group of assets whose service lives should be adjusted, the previously assigned service life of each account, the service life range that the NARUC survey suggests for each account, and the assigned service life that should be used for ratemaking and accounting purposes for all future reporting periods.

15. The Commission received an electronic message from a consumer indicating that Rattlesnake Ridge has already issued bills reflecting rates requested in Rattlesnake Ridge's current application. The electronic message is attached to this Order as Appendix C.

16. Within ten days of issuance of this Order, Rattlesnake Ridge should advise the Commission in writing whether Rattlesnake Ridge issued bills reflecting rates requested in its current application prior to issuance of this Order.

17. If Rattlesnake Ridge issued bills reflecting rates requested in its current application prior to issuance of this Order, within ten days of issuance of this Order, Rattlesnake Ridge should submit a written plan for issuance of refunds for rates collected in excess of the rates in effect prior to issuance of this Order.

18. The issue of whether Rattlesnake Ridge has implemented its proposed rates prior to issuance of this Order may be addressed in a future Commission proceeding.

¹⁰ These reassignments require a net decrease of \$113,317 in Rattlesnake Ridge's test-period depreciation expense. Staff Report at 14.

IT IS THEREFORE ORDERED that:

1. The rates requested by Rattlesnake Ridge, as shown in Appendix A, are approved for water service rendered on and after the date of this Order.

2. Within 20 days of the date of this Order, Rattlesnake Ridge shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.

3. Rattlesnake Ridge shall, for accounting and ratemaking purposes, use the "PSC Approved Service Life" set forth in Appendix B to this Order for the listed classes of assets when calculating and reporting depreciation for all reporting periods after the date of this Order, but shall make no retroactive adjustment to its books to account for the cumulative effect of this change in accounting estimate.

4. Within ten days of issuance of this Order, Rattlesnake Ridge shall advise the Commission in writing whether Rattlesnake Ridge issued bills reflecting the rates requested in its current application prior to issuance of this Order.

5. If Rattlesnake Ridge issued bills reflecting rates requested in its current application prior to issuance of this Order, within ten days of issuance of this Order, Rattlesnake Ridge shall submit a written plan for issuance of refunds for rates collected in excess of the rates in effect prior to issuance of this Order.

6. Any documents filed in the future pursuant to ordering paragraphs 4 and 5 shall reference the case number and shall be retained in the utility's general correspondence file.

7. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon Rattlesnake Ridge's showing of good cause for such extension.

By the Commission

ENTERED
FEB 07 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2013-00338

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2013-00338 DATED FEB 07 2014

The following rates and charges are prescribed for the customers in the area served by Rattlesnake Ridge 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	\$ 19.32	Minimum Bill
Next	4,000	Gallons	11.84	per 1,000 Gallons
Next	5,000	Gallons	10.19	per 1,000 Gallons
Next	10,000	Gallons	8.75	per 1,000 Gallons
Next	20,000	Gallons	6.13	per 1,000 Gallons
All Over	40,000	Gallons	4.82	per 1,000 Gallons

3/4-Inch Meter

First	5,000	Gallons	\$ 66.69	Minimum Bill
Next	5,000	Gallons	10.19	per 1,000 Gallons
Next	10,000	Gallons	8.75	per 1,000 Gallons
Next	20,000	Gallons	6.13	per 1,000 Gallons
All Over	40,000	Gallons	4.82	per 1,000 Gallons

1-Inch Meter

First	10,000	Gallons	\$ 117.65	Minimum Bill
Next	10,000	Gallons	8.75	per 1,000 Gallons
Next	20,000	Gallons	6.13	per 1,000 Gallons
All Over	40,000	Gallons	4.82	per 1,000 Gallons

1 1/2-Inch Meter

First	30,000	Gallons	\$ 266.39	Minimum Bill
Next	10,000	Gallons	6.13	per 1,000 Gallons
All Over	40,000	Gallons	4.82	per 1,000 Gallons

2-Inch Meter

First	50,000	Gallons	\$ 375.91	Minimum Bill
All Over	50,000	Gallons	4.82	per 1,000 Gallons

3-Inch Meter

First	100,000	Gallons	\$ 617.14	Minimum Bill
All Over	100,000	Gallons	4.82	per 1,000 Gallons

4-Inch Meter

First	200,000	Gallons	\$ 1,099.14	Minimum Bill
All Over	200,000	Gallons	4.82	per 1,000 Gallons

6-Inch Meter

First	500,000	Gallons	\$2,546.98	Minimum Bill
All Over	500,000	Gallons	4.82	per 1,000 Gallons

Wholesale Rates

Big Sandy Water District \$3.82 per 1,000 Gallons

City of Vanceburg \$3.82 per 1,000 Gallons

City of Olive Hill \$4.30 per 1,000 Gallons

Kentucky Department of Parks
(Golf Course Only) \$4.63 per 1,000 Gallons

Sandy Hook Water District

First	50,000	Gallons	\$145.15	Minimum Bill
All Over	50,000	Gallons	\$2.90	per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00338 DATED FEB 07 2014

Asset Classification	Current	PSC APPROVED SERVICE LIFE	NARUC Study
Group 311, pumps	10	20	20
Group 331, Lines	40	75	50-75
Group 341, Transportation equipment	5	7	7
Group 345, Excavator	5	12.5	10-15

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00338 DATED **FEB 07 2014**

-----Original Message-----

From: pscfilings@ky.gov [mailto:pscfilings@ky.gov]

Sent: Tuesday, February 04, 2014 4:52 PM

To: PSC - Consumer Web Inquiry

Subject: KY PSC Utility Inquiry

Below is the result of your feedback form. It was submitted by [REDACTED] on Tuesday, February 04, 2014 at 4:52 PM

Name: [REDACTED]

Address: [REDACTED]

City: Olive Hill

State: KY

Zip Code: 41164

Phone number where you can be reached: [REDACTED] Home phone: [REDACTED]

Utility Name: Rattlesnake Ridge Water District State the nature of your concern: [REDACTED]

[REDACTED]
Olive Hill, Ky. 41164

To Whom It May Concern:

As a customer of Rattlesnake Ridge Water District, I am writing this letter to inquire why the conference and hearing concerning the rate adjustment for Rattlesnake Ridge Water District were cancelled.

During the hearing, I hoped that consumer comments would be taken and that the citizens served by this utility company could be heard. I believe I speak on majority of consumers when I say that a 29% increase in water rates is not feasible until all other measures have been exhausted.

Rattlesnake Ridge Water District has found itself in a tight financial situation. I have reviewed the districts budgets and past documents that have been submitted to the local government agencies as well as the public service commission.

Over the past three years it appears that the operating revenues have increased. Unfortunately, the operating expenses have also increased, resulting in financial instability.

Rattlesnake Ridge Water District continues to increase its operating expenses, but has not made an attempt to cut its own cost of operation.

It is my understanding that changes have been made in the management team at Rattlesnake Ridge Water. I would ask that the new management find ways to keep costs down and to better manage the money taken in.

In my own household if my cost of living increases, I cannot simply pass the expense to others; I have to make it work. I would ask that the Public Service Commission review the Water Districts efforts in cutting costs. I do not believe that the water company should be able to impose a 29% increase on the consumer due to lack of financial management.

I ask that the Public Service Commission please take into consideration the customers that are being affected by this increase. For some on a fixed income, the increase is the difference between having water or other necessities.

I have taken the liberty of forming a petition against this increase. If it is favorable with the Public Service Commission, I will send this petition for your consideration. Also, I have heard feedback from several customers who had not received any information concerning the rate increase (I believe notice must be mailed to all consumers.) It is the lack of notice of the proposed increase that has caused the customers concerned to wait until now to notify the Public Service Commission of our concern.

The bill we just received in February reflects the increase in rate and has sparked concern amongst the consumers. I requested the proposed change from the Rattlesnake Ridge Water Company in which it indicated that I have 30 days from the mailing of the notice to file a claim. As of February 4th, 2014, I have not received a notice that the rate is to change. The only notice I received was my bill. I called the water company thinking I had a water leak and was informed that the rates had increased 29%.

If there is anything that the Public Service Commission can do to ensure fair rates to all of Rattlesnake Ridge Customers, please let me know.

Also, I have contacted some water company's close to my location; Rowan Water is a great example of fair rates for consumers. They charge \$550.00 for meter installation compared to Rattlesnake Ridge Water Company's proposed \$1,400.00.

Also for the average consumer who has a 5/8 inch or 3/4 inch meter 5,000 gallons of water would cost \$37.90 with Rowan Water. With Rattlesnake Ridge water rate increase 5,000 gallons of water would cost \$66.69. The difference in these rates is a substantial amount that makes a huge economic impact to those who are served by Rattlesnake Ridge Water.

I hope to hear from the Public Service Commission very soon about this matter.

The following are ways that I can be reached:

Phone [REDACTED]

Cell: [REDACTED]

Email

Mail: [REDACTED]

Olive Hill, Ky. 41164

I look forward to hearing from you.

Thank You,

[REDACTED]

A concerned citizen

Have you contacted the utility about the problem: Yes

Mr. Bill Gilbert
Rattlesnake Ridge Water District
P. O. Box 475
Grayson, KY 41143