

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING	)	CASE NO.
GARRISON-QUINCY-KY-O-HEIGHTS WATER	)	2013-00350
DISTRICT	)	

ORDER

On September 24, 2013, Garrison-Quincy-Ky-O-Heights Water District (“Garrison-Quincy”) tendered an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. After correcting deficiencies, the application was accepted for filing on November 8, 2013. By this Order, the Commission approves a two-phase rate adjustment that will ultimately produce annual water sales revenues of \$455,620, or 24.02 percent, over pro forma present rate revenues.

Phase 1 rates, as shown in Appendix A, will increase the monthly bill of a retail customer who uses 5,000 gallons of water per month from \$36.00 to \$40.33, an increase of \$4.33, or 12.03 percent. Phase 2 rates, as shown in Appendix B, will increase the monthly bill of a retail customer who uses 5,000 gallons of water per month from the Phase 1 rate of \$40.33 to \$44.65, an increase of \$4.32, or 9.68 percent.

In its Application, Garrison-Quincy requested a phase-in plan whereby its water rates would increase three times over a two-year period. After full implementation of its plan, revenues from annual water sales would increase by \$191,351, or 52.09 percent,

above test-year revenues.<sup>1</sup>

On January 17, 2014, after reviewing the application and Garrison-Quincy's records, Commission Staff ("Staff") issued a report containing its findings regarding Garrison-Quincy's proposed rate adjustment. Staff found that Garrison-Quincy should be allowed a two-phase rate plan that would ultimately increase Garrison-Quincy's annual water sales revenues by \$88,255, or 24.02 percent, above revenues provided by current water rates.<sup>2</sup> Staff also recommended that the Commission direct Garrison-Quincy to revise its method for calculating and recording depreciation expense for

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<sup>1</sup> Pursuant to Garrison-Quincy's proposed phase-in plan, Phase 1 rates would become effective immediately upon the Commission's approval and would remain in effect for one year. Phase 1 rates would increase test-year revenues by \$55,105, or 15 percent. Phase 2 rates would become effective upon the completion of Phase 1 rates and would remain in effect for one year. Phase 2 rates would increase Phase 1 revenues by \$63,370. Phase 3 rates would become effective upon the completion of Phase 2 rates and would remain in effect until ordered changed by the Commission. Phase 3 rates would increase Phase 2 revenues by \$72,876, or 15 percent. As shown below, the cumulative increase to test-year revenues from the phase-in plan is \$191,351, or 52.09 percent.

	Annual Water Sales Prior to Increase	Annual Water Sales Subsequent to Increase	15 Percent Increase
Phase 1	\$ 367,365	\$ 422,470	\$ 55,105
Phase 2	422,470	485,840	63,370
Phase 3	485,840	558,716	<u>72,876</u>
Total Revenue Increase			191,351
Divide by: Test-Year Revenue			<u>367,365</u>
Total Percentage Increase			<u><u>52.09%</u></u>

<sup>2</sup> Pursuant to Staff's proposed plan, Phase 1 rates would become effective immediately upon the Commission's approval and would remain in effect for one year. Phase 1 rates would increase test-year revenues by \$44,196, or 12.03 percent. Phase 2 rates would become effective upon the termination of Phase 1 rates and would remain in effective until ordered changed by the Commission. Phase 2 rates would increase Phase 1 revenues by \$44,029, or 10.7 percent. The cumulative increase to test-year revenues from the phase-in plan is \$88,255, or 24.02 percent.

accounting and ratemaking purposes and to take certain actions to improve internal controls regarding cash accounts.<sup>3</sup>

On January 30, 2014, Garrison-Quincy filed a response to Staff's report wherein Garrison-Quincy accepted Staff's findings and requested that the case stand submitted for a Commission decision without a hearing.

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

1. Garrison-Quincy, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 1,079 customers in Carter, Elliot, Lawrence, Lewis, and Morgan counties, Kentucky.<sup>4</sup> It also owns and operates sewage collection and treatment facilities that serve approximately 314 customers.<sup>5</sup>

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

3. Based upon pro forma test-year operations, after adjusting for known and measurable changes, Garrison-Quincy's total pro forma present rate water revenue and

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<sup>3</sup> Staff Report at 6-7

<sup>4</sup> *Annual Report of Garrison-Quincy-KY-O-Heights Water District (Water Division) to the Public Service Commission for the Calendar Year Ended December 31, 2012 ("2012 Water Annual Report")* at 27.

<sup>5</sup> *Annual Report of Garrison-Quincy-KY-O-Heights Water District (Wastewater Division) to the Public Service Commission for the Calendar Year Ended December 31, 2012* at 8.

water surcharge collections are \$409,114, and its total pro forma water operating expenses are \$429,247.<sup>6</sup>

4. Garrison-Quincy currently has outstanding bond issues payable to the United States Department of Agriculture Rural Development (“RD”) that were assumed to finance the cost of water system improvement projects. The three-year average principal and interest payments for the years 2012 through 2014 on the water bonds is \$56,768.<sup>7</sup>

5. The Commission has historically used the Debt Service Coverage (“DSC”) method to calculate the revenue requirements of water districts with long-term debt.

6. Application of the DSC method to Garrison-Quincy’s pro forma water operations results in a total water revenue requirement of \$497,369. A water revenue

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<sup>6</sup> Staff Report at 8.

Sales of Water	\$ 367,365
Other Water Revenue	18,225
Interest Income	339
Donate Capital - Surcharge	<u>23,185</u>
Total Revenue and Income	<u>\$ 409,114</u>
Operation and Maintenance	\$ 315,511
Taxes Other Than Income	9,870
Depreciation	<u>103,866</u>
Total Expenses	<u>\$ 429,247</u>

<sup>7</sup> *Id.* at 27.

increase of \$88,255 or 24.02 percent, is necessary to generate the total revenue requirement.<sup>8</sup>

7. Phase 1 rates calculated by Staff will not produce additional annual revenues of \$88,255; however, they will produce additional water revenues of \$44,196, which is sufficient to meet the DSC ratio requirements of Garrison-Quincy's lenders.<sup>9</sup>

8. The record contains no evidence that permitting Garrison-Quincy to assess Phase 1 rates will result in any degradation or reduction in the quality of service that Garrison-Quincy currently provides.

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Pro Forma Operating Expenses	\$ 429,247
Plus: Average Principal and Interest Payments	56,768
Additional Working Capital	<u>11,354</u>
Total Revenue Requirement	497,369
Less: Total Pro Forma Present Rate Income	<u>(409,114)</u>
Revenue Increase	88,255
Divide by: Pro Forma Present Rate Water Sales	<u>367,365</u>
Percentage Increase	<u>24.02%</u>

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Gross Water Revenue and Income at Present Rates	\$ 409,114
Plus: Water Revenue Increase from Phase 1 Rates	<u>44,196</u>
Gross Water Revenue After Implementation of Phase 1 Rates	453,310
Less: Water Operation and Maintenance Expenses	(315,511)
Water Taxes	<u>(9,870)</u>
Net Water Revenues for DSC Ratio Calculation	127,929
Divide by: Average Annual Payments on RD Water Bonds	<u>56,768</u>
DSC Ratio	<u>225%</u>

9. A utility may assess rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as insufficient or inadequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of this level of revenue, the rate phase-in plan proposed by Staff and agreed to by Garrison-Quincy should be accepted.<sup>10</sup>

10. Phase 2 rates calculated by Staff will increase pro forma present rate water revenues by \$88,255.

11. Staff's phase-in plan evenly distributes the revenue increase to all Garrison-Quincy's customers. An even distribution of the revenue increase to existing rates results in an equitable spread of the revenue increase to Garrison-Quincy's customers and is appropriate, absent any evidence to the contrary.

12. The water rates requested by Garrison-Quincy will produce \$191,351 in additional annual water sales revenues and should be denied.

13. Phase 1 and Phase 2 rates calculated by Staff, and accepted by Garrison-Quincy, are fair, just, and reasonable and should be approved.

14. Garrison-Quincy presently uses service lives for six groups of water assets that are at variance<sup>11</sup> with those found in a survey of the National Association of Regulatory Utility Commissioners ("NARUC Survey") that contain "a range of average

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<sup>10</sup> *Utilities Operating Co. v King*, 143 So.2d 854, 45 PUR3d 439, 443 (Fla. 1962) ("[I]n the absence of some showing that the service to the public will suffer by allowing . . . [a] utility to charge rates which will not produce a fair return, the utility and not the Commission has the right of decision as to the rates it will charge so long as they do not exceed those which would produce a fair return as determined by the Commission"). See also, Case No. 2006-00410, *The Application of Hardin County Water District No. 1 for a General Rate Adjustment Effective on and after December 2, 2006* (Ky. PSC Aug. 2, 2007); Case No. 98-398, *Adjustment of Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

<sup>11</sup> Staff Report, Attachment B.

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.”<sup>12</sup>

15. The Commission has previously used the NARUC Survey to establish the service lives of utility assets.<sup>13</sup>

16. The record contains no evidence that the service lives that Garrison-Quincy uses for these six asset groups are based upon a depreciation study or its own historic plant records.

17. Garrison-Quincy’s assignment of service lives for these six asset groups is not reasonable and should be revised for ratemaking and accounting purposes in all future reporting periods.

18. Appendix C to this Order sets forth the assets whose service lives should be adjusted, the previously assigned service life of each asset, the service life range that the NARUC Survey suggests for each asset, and the assigned service life that should be used for ratemaking and accounting purposes for all future reporting periods.

19. Garrison-Quincy should maintain separate cash accounts for the water and wastewater divisions.

IT IS THEREFORE ORDERED that:

1. Garrison-Quincy’s proposed water rate phase-in plan and proposed rates are denied.

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<sup>12</sup> National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

<sup>13</sup> See, e.g., Case No. 2012-00390, *Application of Crittenden-Livingston Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 20, 2012) at 4, n. 10.

2. Staff's water rate phase-in plan, accepted by Garrison-Quincy, is approved.

3. Garrison-Quincy shall charge the rates that are set forth in Appendix A for service rendered on and after the date of this Order, up to and including February 17, 2015.

4. Garrison-Quincy shall charge the rates that are set forth in Appendix B for service rendered on and after February 18, 2015.

5. Garrison-Quincy shall maintain separate cash accounts for the water and wastewater divisions.

6. No earlier than 30 days, but no later than 20 days prior to February 18, 2015, Garrison-Quincy shall publish notice of the Phase 2 rates at least once in a newspaper of general circulation in its territory or place an insert in bills rendered to its customers. Notice shall be in the form set forth in Appendix D to this Order. Garrison-Quincy shall file with the Commission proof of publication no later than ten days after publication of the notice.

7. Within 20 days of the date of this Order, Garrison-Quincy shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets that contain the rates approved in this Order.

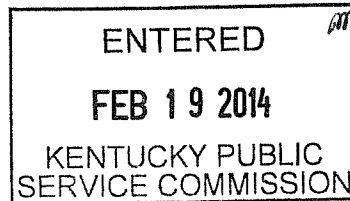
8. Garrison-Quincy shall, for accounting and ratemaking purposes, use the "PSC Approved Service Life" set forth in Appendix C for the listed classes of assets when calculating and reporting depreciation for all reporting periods after the date of this Order, but shall make no retroactive adjustment to its books to account for the accumulated effect of this depreciation or change in accounting estimate.



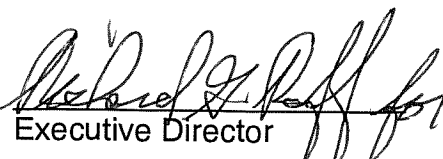
9. Any documents filed pursuant to ordering paragraph 6 shall reference this case number and shall be retained in the utility's general correspondence file.

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

By the Commission



ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00350 DATED FEB 19 2014

The following water rates and charges are prescribed for the customers in the area served by Garrison-Quincy-Ky-O-Heights Water District for water services rendered on and after February 17, 2014. 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

Phase 1

5/8- x 3/4-Inch Meter

First	2,000 gallons	\$ 18.52	Minimum bill
Next	3,000 gallons	7.27	per 1,000 gallons
Next	5,000 gallons	6.08	per 1,000 gallons
All Over	10,000 gallons	4.81	per 1,000 gallons.

1-Inch Meter

First	10,000 gallons	\$ 70.73	Minimum bill
All Over	10,000 gallons	4.81	per 1,000 gallons

2-Inch Meter

First	50,000 gallons	\$ 263.13	Minimum bill
All Over	50,000 gallons	4.81	per 1,000 gallons

BULK SALES

7.84	per 1,000 gallons
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## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2013-00350 DATED FEB 19 2014

The following water rates and charges are prescribed for the customers in the area served by Garrison-Quincy-Ky-O-Heights Water District for water service rendered on and after February 18, 2015. 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

##### Phase 2

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

First	2,000	gallons	\$ 20.50	Minimum bill
Next	3,000	gallons	8.05	per 1,000 gallons
Next	5,000	gallons	6.73	per 1,000 gallons
All Over	10,000	gallons	5.32	per 1,000 gallons

#### 1-Inch Meter

First	10,000	gallons	\$ 78.30	Minimum bill
All Over	10,000	gallons	5.32	per 1,000 gallons

#### 2-Inch Meter

First	50,000	gallons	\$ 291.10	Minimum bill
All Over	50,000	gallons	5.32	per 1,000 gallons

#### BULK SALES

8.68 per 1,000 gallons

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO 2013-00350 DATED FEB 19 2014

Proposed Modifications to the Service Lives of  
Certain Assets of Garrison-Quincy-Ky-O-Heights Water District

Asset Group	NARUC Range	Previous Assigned Service Life	PSC Approved Service Life
Pump House	35-40	50	37.5
Ford F150, Chevy Truck	7	10	7
Telemetry Equipment	10	20	10
DLXI Locator	15-20	10	17.5
Concrete Backwash Pit (Wells, Springs & Reservoirs)	35-40	45	37.5
Wells & Springs (Wells, Springs & Reservoirs)	25-35	45	30

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00350 DATED **FEB 19 2014**

**NOTICE TO THE CUSTOMERS OF  
GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT**

Pursuant to the Order of February 17, 2014, of the Kentucky Public Service Commission in Case No. 2013-00350, the following rates shall become effective on February 18, 2015, for water service that Garrison-Quincy-Ky-O-Heights Water District provides.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 gallons	\$ 20.50	Minimum bill
Next	3,000 gallons	8.05	per 1,000 gallons
Next	5,000 gallons	6.73	per 1,000 gallons
All Over	10,000 gallons	5.32	per 1,000 gallons

1-Inch Meter

First	10,000 gallons	\$ 78.30	Minimum bill
All Over	10,000 gallons	5.32	per 1,000 gallons

2-Inch Meter

First	50,000 gallons	\$291.10	Minimum bill
All Over	50,000 gallons	5.32	per 1,000 gallons

**BULK SALES**

8.68 per 1,000 gallons

John Pierce  
General Manager  
Garrison-Quincy-Ky-O-Heights Water District  
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