

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF)	CASE NO.
WESTERN MASON COUNTY WATER)	2014-00421
DISTRICT)	

ORDER

Western Mason County Water District (“Western Mason”) has applied to adjust its water service rates. By this Order, the Commission approves a two-phase rate adjustment that will ultimately produce additional water service revenues of \$219,265, a 44.61 percent increase to pro forma present rate revenues of \$491,473.

Phase 1 rates, as shown in Appendix A, will increase the monthly bill of a typical residential customer¹ from \$39.50 to \$47.53, an increase of \$8.03, or 20.33 percent. Phase 2 rates as shown in Appendix B, will increase the monthly bill of a typical residential customer from the Phase 1 rate of \$47.53 to \$57.19, an increase of \$9.66, or 20.32 percent.

Western Mason tendered its application pursuant to 807 KAR 5:076 on December 1, 2014. The application was considered filed on December 23, 2014, when all filing deficiencies were cured. On January 12, 2015, the Commission issued a procedural order to ensure the orderly review of Western Mason’s application.

During its field review, Commission Staff discovered that Western Mason had an outstanding ten-year, \$86,374 loan payable to the Bank of Maysville dated January 10,

¹ A typical residential customer is assumed to purchase 5,000 gallons of water per month through a 5/8-inch x 3/4-inch meter.

2014. Western Mason acknowledged that it did not seek or receive approval from the Commission to enter in the evidence of indebtedness as required by KRS 278.300. Western Mason had also entered into at least three other evidences of indebtedness, none of which are still outstanding, without seeking approval from the Commission.

Staff applied methods and practices that are generally accepted by the Commission to review the reasonableness of the rates and charges requested in Western Mason's application. On March 24, 2015, Staff issued a report finding that Western Mason's adjusted test-year operations support a \$219,265 increase to annual water sales revenue. Staff also found that Western Mason should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

On April 2, 2015, Western Mason filed its responses to Staff's report wherein it accepted Staff's findings and requested that the scheduled informal conference be cancelled. By order dated April 8, 2015, the informal conference was cancelled.

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

1. Western Mason was organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 1,032 customers in Bracken and Mason counties, Kentucky.²

2. The calendar year ending December 31, 2013, should be used as the test year to determine the reasonableness of Western Mason's existing and proposed water rates.

² Staff Report at 1.

3. Based upon pro forma test-year operations, Western Mason's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable charges, are \$517,251 and \$533,411, respectively.³

4. Western Mason currently has outstanding bond issues payable to the United States Department of Agriculture Rural Development ("RD") and the Kentucky Infrastructure Authority ("KIA") that were assumed to finance the cost of a water system improvement project. The three-year average principal and interest payments for the years 2015 through 2017 on the water bonds is \$169,254.⁴

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

³ *Id.* at 5. The revenues and expenses listed below include all regulated and non-regulated operations that should be accounted for when calculating WLWD's income that is available to service its debt.

Water Sales Revenue	\$ 491,473
Other Operating Revenue	13,836
Interest Income	2
Non-Operating Revenue	<u>11,940</u>
Total Revenue	<u>\$ 517,251</u>
Operation and Maintenance Expenses	\$ 372,115
Taxes Other Than Income	11,256
Depreciation	<u>150,040</u>
Total Expenses	<u>\$ 533,411</u>

⁴ *Id.* at 17.

6. Application of the Commission's DSC method to Western Mason's pro forma operations results in an overall revenue requirement of \$736,516. Revenue of \$710,738 from water service rates is necessary to generate the overall requirement.⁵

7. Phase 1 rates calculated by Staff will not produce the revenues necessary to meet the overall revenue requirement of \$736,516; however they will produce revenues sufficient to meet the DSC ratio requirements of Western Mason's lenders.⁶

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

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

⁵ *Id.* at 16.

⁶

Gross Water Revenue and Income at Present Rates	\$ 491,473
Plus: Water Revenue Increase from Phase 1 Rates	<u>99,867</u>
Gross Water Revenue After Implementation of Phase 1 Rates	591,340
Less: Water Operation and Maintenance Expenses	(372,115)
Water Taxes Other Than Income	<u>(11,256)</u>
Net Water Revenues for DSC Ratio Calculation	207,969
Divide by: Average Annual Payments on Water Bonds	<u>169,254</u>
DSC Ratio	<u><u>123%</u></u>

this level of revenue, the rate phase-in plan proposed by Staff and agreed to by Western Mason should be accepted.⁷

10. Phase 2 rates calculated by Staff will produce revenues sufficient to recover the revenue requirement of \$736,516 as determined by Staff.

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

12. The water service rates requested by Western Mason will produce \$726,495 in annual water sales revenues and should be denied.⁸

13. During the test year, Western Mason used service lives for Transmission and Distribution Mains, Meters and Meter Installations, New Meters, Transportation Equipment, and Communication Equipment that are at variance with those found in a survey of the National Association of Regulatory Utility Commissioners ("NARUC Survey") that contain "a range of average service lives currently being used by water

⁷ *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 the 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); and Case No. 98-398, *An Adjustment of Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

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Pro Forma Present Rate Water Sales Revenue	\$ 491,473
Plus: Increase Requested by Western Mason	
\$491,473 x 47.82 percent	<u>235,022</u>
Water Sales Revenue from Requested Rates	<u>\$ 726,495</u>

utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice.”⁹

14. The Commission has previously used the NARUC Survey to establish the services lives of water assets when there is no evidence in the record that supports alternative lives.¹⁰

15. The record contains no evidence that the service lives that Western Mason uses for Transmission and Distribution Mains, Meters and Meter Installations, New Meters, Transportation Equipment, and Communication Equipment should be at variance with the NARUC Survey.

16. Western Mason’s assignment of service lives for these asset groups is not reasonable and should be revised to conform to the NARUC Survey for ratemaking and accounting purposes in all future reporting periods.

17. In the near future, the Commission will initiate a new proceeding to more thoroughly investigate Western Mason for issuing indebtedness without prior Commission approval.

IT IS THEREFORE ORDERED that:

1. The water service rates requested by Western Mason are denied.
2. The water service rates set forth in Appendix A to this Order are approved for services rendered by Western Mason on and after the date of this Order.

⁹ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

¹⁰ Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21 2007); and 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).

3. The water service rates set forth in Appendix B to this Order are approved for services rendered by Western Mason on and after the date of the first anniversary of this Order.

4. No earlier than 30 days, but no later than 20 days prior to implementation of the rates set forth in Appendix B, Western Mason 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. Western Mason shall file with the Commission proof of publication no later than ten days after publication of the notice.

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

6. In all future reporting periods, Western Mason shall use the "PSC Approved Service Life" set forth in Appendix C to this Order for the listed asset groups when calculating and reporting depreciation for all reporting periods after the date of this Order. No retroactive adjustment to accumulated depreciation or retained earnings to account for this change in accounting estimate shall be made.

By the Commission

ENTERED
MAY 15 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00421 DATED **MAY 15 2015**

The following water rates are prescribed for the customers in the area served by Western Mason County Water District for water services rendered on and after the date of this Order. 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.

Phase 1 Water Rates

First	2,000 gallons	\$ 33.10 Minimum bill
Next	8,000 gallons	4.81 per 1,000 gallons
All Over	10,000 gallons	4.21 per 1,000 gallons
Bulk Water Sales		5.05 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00421 DATED **MAY 15 2015**

The following water rates are prescribed for the customers in the area served by Western Mason County Water District for water service rendered on and after the first anniversary of issuance of this Order. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission as of the date of implementation of Phase 1 rates.

Phase 2 Water Rates

First	2,000 gallons	\$ 39.82 Minimum bill
Next	8,000 gallons	5.79 per 1,000 gallons
All Over	10,000 gallons	5.07 per 1,000 gallons
Bulk Water Sales		6.10 per 1,000 gallons

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
 COMMISSION IN CASE NO. 2014-00421 DATED **MAY 15 2015**

Proposed Modifications to the Service Lives
 Of Certain Assets of Western Mason County Water District

Asset Classification	NARUC Range	Previous Assigned Service Life	PSC Approved Service Life
331/343 Transmission and Distribution Mains	50-75	39-40	62.5
334/346 Meters and Meter Installations	40-50	7-39	45
New Meters	35-45	*	40
341 Transportation Equipment	7	5	7
Automated Meter Reading System, Telemetry System, GPS Mapping System/Communication Equipment	10	20	10

*New meters were expensed in the test year rather than capitalized.

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00421 DATED **MAY 15 2015**

**NOTICE TO THE CUSTOMERS OF
WESTERN MASON COUNTY WATER DISTRICT**

Pursuant to the Order of April XX, 2015, of the Kentucky Public Service Commission in Case No. 2014-00421, the following rates shall become effective on April XX, 2016, for water service that Western Mason County Water District provides.

Monthly Water Rates

First	2,000 gallons	\$ 39.82 Minimum bill
Next	8,000 gallons	5.79 per 1,000 gallons
All Over	10,000 gallons	5.07 per 1,000 gallons
Bulk Water Sales		6.10 per 1,000 gallons

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