

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTH HOPKINS WATER)	
DISTRICT FOR RATE ADJUSTMENT FOR)	CASE NO.
SMALL UTILITIES PURSUANT TO 807 KAR)	2018-00118
5:076)	

ORDER

On April 2, 2018, North Hopkins Water District (North Hopkins District) tendered an application (Application) with the Commission pursuant to 807 KAR 5:076 requesting to adjust its rates for water service. By letter dated April 4, 2018, the Commission notified North Hopkins District that the application was deemed filed. In its Application, North Hopkins District requested rates that would increase annual water sales revenues by \$208,384, a 25.73 percent increase to pro forma present rate water sales revenues.

Commission Staff (Staff), on July 16, 2018, issued a report (Report) summarizing its findings regarding North Hopkins District's requested rate adjustment. In its Report, Staff found that North Hopkins District's adjusted test-year operations support an overall revenue requirement in the amount of \$979,899 and that an annual revenue increase in the amount of \$212,006, or 27.67 percent, is necessary to generate the overall revenue requirement. On July 26, 2018, North Hopkins District filed with the Commission its comments on Staff's Report wherein it did not object to any of the Staff's findings. With

its comments, North Hopkins District did not request that a conference or hearing be held.¹

BACKGROUND

North Hopkins District is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 1,285 customers that reside in Hopkins County, Kentucky.² North Hopkins District purchases all of its water. This is North Hopkins District’s first general rate adjustment.

TEST PERIOD

The calendar year ended December 31, 2016, was used as the test year to determine the reasonableness of North Hopkins District’s existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes North Hopkins District’s pro forma income statement as follows:

	<u>2016 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 778,502	\$ (11,378)	\$ 767,124
Operating Expenses	<u>843,595</u>	<u>(14,827)</u>	<u>\$ 828,768</u>
Net Operating Income	(65,093)	3,449	(61,644)
Interest/Nonutility Income	<u>769</u>	<u> </u>	<u>769</u>
Income Available for Debt Service	<u>\$ (64,324)</u>	<u>\$ 3,449</u>	<u>\$ (60,875)</u>

¹ Letter from North Hopkins Water District Chairman, Norman Adams, to Public Service Commission Executive Director, Gwen R. Pinson (July 25, 2018).

² *Annual Report of North Hopkins Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016 (Annual Report)* at 12 and 48.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, North Hopkins District requires an increase in revenues of \$212,006, or 27.67 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$828,768
Plus: Average Annual Debt Payments	125,942
Additional Working Capital	<u>25,188</u>
Overall Revenue Requirement	979,899
Less: Other Operating Revenue	(976)
Nonutility Income	(673)
Interest Income	<u>(96)</u>
Revenue Required From Rates	978,154
Less: Pro Forma Present Rate Revenues	<u>(766,148)</u>
Required Revenue Increase	<u>\$212,006</u>
Percent Increase	<u>27.67%</u>

RATE DESIGN

Although Staff determined that a 27.67 percent increase is warranted, North Hopkins District requests to increase its current water service rates by an even, across-the-board 25.73 percent increase. The requested 25.73 percent increase will produce additional revenues sufficient for North Hopkins District to meet the Debt Service Coverage (DSC) ratio requirement of North Hopkins District's lenders.

The Commission finds that in the absence of a cost-of-service study the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to North Hopkins District's customers. The monthly bill of a typical residential customer using 4,000 gallons will increase from \$49.64 to \$62.40, or approximately 25.71 percent.

SUMMARY

The Commission after consideration of the evidence of record and being otherwise sufficiently advised finds that:

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.

2. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to North Hopkins District's pro forma operations results in an Overall Revenue Requirement in the amount of \$979,899. A revenue increase of \$212,006 from water service rates is necessary to generate the overall revenue requirement.

3. The record contains no evidence that permitting North Hopkins District to assess water service rates at a level lower than could be supported will result in any degradation or reduction in the quality of water service currently provided by North Hopkins District. A utility may assess rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as sufficient or adequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of this level of revenue, the 25.73 percent increase in water service rates requested by North Hopkins District should be approved by the Commission.³

³ *Utilities Operating Co. v King*, 143 So2d 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, *Adjustment of Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

4. The water service rates proposed by North Hopkins District should be approved.

5. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

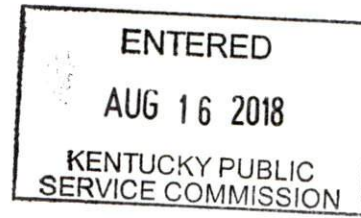
1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates proposed by North Hopkins District are approved.

3. The rates set forth in the Appendix to this Order are approved for services rendered by North Hopkins District on and after the date of this Order.

4. Within 20 days of the date of this Order, North Hopkins District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

By the Commission



ATTEST:


Executive Director

Case No. 2018-00118

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00118 DATED **AUG 16 2018**

The following rates and charges are prescribed for the customers in the area served by North Hopkins District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8 Inch Meter

First	2,000	Gallons	\$ 31.58	Minimum bill
Next	2,000	Gallons	15.41	per 1,000 Gallons
Next	3,000	Gallons	12.46	per 1,000 Gallons
Next	3,000	Gallons	11.01	per 1,000 Gallons
All Over	10,000	Gallons	8.75	per 1,000 Gallons

1 Inch Meter

First	5,000	Gallons	\$ 74.86	Minimum bill
Next	2,000	Gallons	12.46	per 1,000 Gallons
Next	3,000	Gallons	11.01	per 1,000 Gallons
All Over	10,000	Gallons	8.75	per 1,000 Gallons

1-1/2 Inch Meter

First	10,000	Gallons	\$ 132.81	Minimum bill
All Over	10,000	Gallons	8.75	per 1,000 Gallons

2 Inch Meter

First	15,000	Gallons	\$ 176.56	Minimum bill
All Over	15,000	Gallons	8.75	per 1,000 Gallons

3 Inch Meter

First	30,000	Gallons	\$ 307.81	Minimum bill
All Over	30,000	Gallons	8.75	per 1,000 Gallons

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