

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|-------------------------------------|---|------------|
| APPLICATION OF NORTH MCLEAN COUNTY |) | CASE NO. |
| WATER DISTRICT FOR ALTERNATIVE RATE |) | 2018-00260 |
| ADJUSTMENT |) | |

ORDER

On July 31, 2018, North McLean District tendered an application (Application) to the Commission requesting to increase its water service rates pursuant to 807 KAR 5:076. By letter dated August 7, 2018, the Commission notified North McLean District that its Application was rejected as deficient. On August 10, 2018, North McLean District filed its responses to the filing deficiencies and its Application was accepted for filing on August 15, 2018. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated August 31, 2018. Finding in its November 6, 2018 Order that Commission Staff (Staff) requires additional time to complete its report on North McLean District's application, the Commission, on its own motion, extended the date the Staff Report would be issued from November 14, 2018, to November 30, 2018. In its Application, North McLean District requested rates that would increase the monthly bill of a typical residential customer purchasing 6,767 gallons of water by \$9.02, from \$46.00 to \$55.02, or approximately 19.61 percent.

On November 29, 2018, pursuant to the procedural Order, Staff issued a report (Report) summarizing its findings regarding North McLean's requested rate adjustment. In its Report, Staff found that North McLean District's adjusted test-year operations

support an Overall Revenue Requirement of \$838,372 and that an annual revenue increase of \$111,377, or 15.81 percent, is necessary to generate the Overall Revenue Requirement.

On December 3, 2018, North McLean District filed with the Commission its comments on Staff's Report, wherein it accepted Staff's findings and requested to implement the rates calculated by Staff. With its comments, North McLean District did not request that an informal conference or formal hearing be held.¹

Subsequent to North McLean District filing its comments on Staff's report, Staff discovered an error contained in the initial report and on December 12, 2018, issued an amended report finding that North McLean District's adjusted test-year operations support an Overall Revenue Requirement of \$785,705 and that an annual revenue increase of \$58,710, or 8.33 percent, is necessary to generate the Overall Revenue Requirement.

On December 14, 2018, North McLean District filed with the Commission its comments on Staff's amended report, wherein it accepted Staff's findings and requested to implement the rates calculated by Staff. With its comments, North McLean District did not request that an informal conference or formal hearing be held.²

WATER LOSS

The Commission notes that in its 2017 Annual Report North McLean reported a water loss of 18.60 percent. Commission regulation 807 KAR 5:066 Section 6(3) states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15

¹ North McLean Water District Response to Commission Staff Report.

² North McLean County Water District Response to Amended Commission Staff Report.

percent of total water produced and purchased, excluding water consumed by a utility in its own operations.

However, Staff found that upon recalculating water loss by comparing the purchased water amounts to their billing analysis and normalizing the amounts of water used in the test year, North McLean District's water loss was found to be 6.31 percent.

BACKGROUND

North McLean 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 1,304 customers in McLean County, Kentucky.³ North McLean's last application for rate adjustment was approximately 1 year ago in Case No. 2016-00253.⁴

TEST PERIOD

The calendar year ending on December 31, 2017, was used as the test year to determine the reasonableness of North McLean's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Based on the findings of the Staff Report, North McLean's pro forma operational revenue is as follows:

³ *Annual Report of McLean County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2017 (Annual Report)* at 12 and 48.

⁴ Case No. 2017-00253, *Application of North Mclean County Water District for Alternative Rate Adjustment*, (Ky. PSC Jan. 5, 2018).

| | 2017 Annual Report | Pro Forma Adjustments | Pro Forma Operations |
|---------------------------------------|-----------------------|--------------------------|-------------------------|
| Total Operating Revenues | \$ 655,727 | 69,763 | \$ 725,490 |
| Total Operation & Maintenance Expense | 655,625 | (46,347) | 609,278 |
| Depreciation | 66,085 | 757 | 66,842 |
| Taxes Other Than Income | 18,130 | (2,829) | 15,301 |
| Net Utility Operating Income | <u>\$ (84,113)</u> | <u>118,182</u> | <u>\$ 34,069</u> |

STAFF'S FINDINGS

In its Application, North McLean did not propose any adjustments to its test-year operations. In its Report, Staff proposed adjustments to both revenues and expenses. The Commission accepts the findings contained in the Staff's Report.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, North McLean requires an increase in revenues of \$58,710, or 8.33 percent above pro forma present rate revenues, as shown below:

| | |
|---|------------------|
| Operating Expenses | \$ 691,421 |
| Divided by: Operating Ratio | <u>88%</u> |
| Overall Revenue Requirement | 785,705 |
| Add: Interest Expense | 2,520 |
| Less: Other Operating Revenue | (20,983) |
| Interest Income | <u>(4,025)</u> |
| Revenue Requirement - Water Rates | 763,217 |
| Less: Normalized Revenue from Water Service | <u>(704,507)</u> |
| Required Revenue Increase | <u>\$ 58,710</u> |
| Percentage Increase | <u>8.33%</u> |

RATE DESIGN

The Commission finds that in the absence of a cost-of-service study the across-the-board method as proposed by Staff is an appropriate and equitable method to allocate the increased cost to North McLean's customers. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$763,217. The revenue required is determined to be reasonable by the Commission herein. The monthly bill of a typical residential customer using 6,767 gallons will increase \$46.00 to \$49.84, an increase of \$3.84, or approximately 8.35 percent.

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. By applying the Operating Ratio Method, as generally accepted by the Commission, Staff found that North McLean District's Overall Revenue Requirement is \$785,705 and that a \$58,710 revenue increase, or 8.33 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.
3. The water service rates proposed by North McLean should be denied.
4. 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 general service rates proposed by North McLean are denied.

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

4. Within 20 days of the date of this Order, North McLean 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.

5. This case is hereby closed and will be removed from the Commission's docket.

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By the Commission

ENTERED
DEC 20 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2018-00260

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00260 DATED **DEC 20 2018**

The following rates and charges are prescribed for the customers in the area served by North McLean County 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

| | | | |
|-------|----------------|---------|-------------------|
| First | 2,000 Gallons | \$18.28 | Minimum bill |
| Next | 8,000 Gallons | 6.62 | per 1,000 Gallons |
| Next | 30,000 Gallons | 6.00 | per 1,000 Gallons |
| Over | 40,000 Gallons | 5.41 | per 1,000 Gallons |

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