

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MEADE)	
COUNTY WATER DISTRICT FOR AN)	CASE NO.
ALTERNATIVE RATE ADJUSTMENT)	2019-00044

ORDER

On March 27, 2019,¹ Meade County Water District (Meade District) filed an application (Application), pursuant to 807 KAR 5:076, requesting to adjust its monthly water service rates, pursuant to 807 KAR 5:076, an alternative rate adjustment procedure (ARF) for small utilities. Meade District also requested to deviate from certain filing requirements. Meade District sought an expedited decision on its requested rate adjustment of \$90,138 to recover only the increased purchased water costs due to switching wholesale water suppliers.

The need for the increase in revenue is a direct result of Meade District switching wholesale water suppliers. Until October 2018, Meade District purchased all of its water from two suppliers, the city of Brandenburg (Brandenburg) and Hardin County Water District No. 1 (Hardin District No. 1), both of whom used chlorine as a disinfectant. However, Hardin District No. 1 converted to chloramines, which is the regional disinfectant of choice, while Brandenburg continued to disinfect with chlorine. To maintain a consistent disinfection approach throughout its distribution system and because mixing

¹ Meade County District tendered its Application on March 22, 2019, which included a motion to deviate from certain filing requirements. By Order entered March 27, 2019, the Commission granted the motion and the Application was deemed filed as of March 27, 2019.

of water using different disinfectants is unsafe, Meade District began purchasing all water from Hardin District No. 1, which charges a higher rate for wholesale water than Brandenburg.

The switch in wholesale providers increased Meade District's wholesale water costs by \$0.56 per 1,000 gallons. Generally, a water district is allowed to pass an increase in a wholesale supplier's rate on to its customers through the purchased water adjustment (PWA) provisions in 807 KAR 5:068. However, 807 KAR 5:068 does not allow an automatic pass through when there is a change in the wholesale supplier or when the wholesale supplier's rate was not increased. Nor does 807 KAR 5:068 allow for any deviation. The Commission denied Meade District's recent PWA filing because the increase in the cost of purchased water resulted from purchasing more water from a supplier who charged a higher price and not because the supplier increased its rates. The Commission encouraged Meade District to file an application pursuant to 807 KAR 5:076, with leave to request deviations from filing requirements and request an expedited decision.

By Order entered March 27, 2019, the Commission granted Meade District's request to deviate from certain filing requirements of 807 KAR 5:076 due to the unique circumstances of increased prices because of a change in suppliers and the unavailability of filing a rate adjustment under the PWA procedures in 807 KAR 5:068.² The Commission determined that the requirements to file copies of outstanding evidences of indebtedness, amortization schedule of each evidence of indebtedness, a depreciation

² See Case No. 2018-00430, *Purchased Water Adjustment Filing of Meade County Water District* (Ky. PSC Jan. 22, 2019).

schedule of utility plant in service, and a detailed billing analysis were not necessary to determine the total increase in purchased water cost or to ascertain Meade District's financial ability to absorb those costs.

Meade District filed its Application pursuant to 807 KAR 5:076, using a 12-month historical period ending December 31, 2017. Meade District proposed an increase in its annual revenue requirement of \$90,138, or a 3.98 percent increase. Meade District calculated the proposed rates using the PWA methodology set forth in 807 KAR 5:068. Meade District utilized the PWA adjustment methodology because it requests to recover only the additional cost of purchased water in the proposed increased rates.

The Commission finds that Meade District established good cause to use the PWA methodology under these circumstances. While Meade District's rates cannot be adjusted pursuant to 807 KAR 5:068, there is no prohibition on applying the PWA methodology when adjusting rates pursuant to 807 KAR 5:076, which includes a provision for deviation in 807 KAR 5:076, Section 17.

The Commission further finds that Meade District established that it cannot absorb the increase in purchased water costs through its existing rates. The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of: (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;³ (3) the average annual principal

³The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. *See Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and

and interest payments on all long-term debts, and (4) working capital that is in addition to depreciation expense.

Meade District's calculation of the Overall Revenue Requirement and Required Revenue Increase using the DSC method is shown below:

Pro Forma Operating Expenses	\$ 2,338,909
Plus: Avg. Principal and Interest Payments	365,448
Additional Working Capital	<u>73,090</u>
Total Revenue Requirement	2,777,447
Less: Other Operating Revenue	(97,656)
Interest Income	(1,181)
Non-utility Income	<u>(86)</u>
Revenue Required from Retail Rates	2,678,524
Less: Revenue from Sales at Present Rates	<u>(2,266,230)</u>
Required Revenue Increase	<u>\$ 412,294</u>
Percent Increase	<u>18.19%</u>

It should be noted that while Meade District determined that its test-year revenues and expenses justify a revenue increase of \$412,294, or 18.19 percent increase, Meade District limited its request to \$90,138, or 3.98 percent.

(1) Average Annual Principal and Interest Payments. In its Application, Meade District requested recovery of the five-year average principal and interest payments due in calendar years 2019 through 2023. Staff agrees that the \$365,448 requested by

replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012)

Meade District represents, in all material respects, the average annual debt payments that will be made in each year that the water rates approved by the Commission in this proceeding will be in effect.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal & Interest</u>
2019	\$ 319,099	\$ 164,372	\$ 483,471
2020	187,621	154,823	342,444
2021	194,953	147,760	342,713
2022	198,341	135,602	333,943
2023	201,286	123,385	324,671
<u>Total Annual Average Principal and Interest</u>			<u>\$ 365,448</u>

(2) Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. Meade District's additional working capital is calculated below:

<u>Additional Working Capital</u>	
Annual Debt Service Payments	\$ 365,448.40
Multiplied by: DSC Coverage Ratio	<u>1.20</u>
Required Net Revenues	438,538
Less: Annual Debt Service	<u>(365,448)</u>
Allowance for Additional Working Capital	<u>\$ 73,090</u>

Meade District has not filed a cost-of-service study seeking to adjust its current rate structure. Meade District has proposed to utilize its current rate design and rate structure and to adjust its current rates by the increase in the purchase water factor as calculated in the ARF Application Form 1, Attachment CPR. The Commission previously

issued an Order granting Meade District a deviation to use the methodology of the purchase water factor as the manner to increase the current rates.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Meade District and included in the Appendix to this Order are approved for service rendered by Meade District on and after the date of this Order.
2. Within 20 days of the date of this Order, Meade District shall file with the Commission, using the commission's electronic Tariff Filing System, new tariff sheets setting out the rates approved and reflecting that they were authorized by this Order.
3. This case is closed and removed from the Commission's docket.

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By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2019-00044 DATED **APR 09 2019**

The following rates and charges are prescribed for the customers in the area served by Meade County Water District for service rendered on and after the date of this Order. All other rates and charges not specifically mentioned in this Appendix shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

Monthly Water Rates

All Meters

First	2,000	Gallons	\$18.60	Minimum bill
Next	5,000	Gallons	9.01	per 1,000 Gallons
Next	10,000	Gallons	8.68	per 1,000 Gallons
Next	20,000	Gallons	7.91	per 1,000 Gallons
Over	37,000	Gallons	6.83	per 1,000 Gallons

Bulk Sales Rate 6.33 per 1,000 Gallons

Wholesale Rates

Doe Valley Water	4.22	per 1,000 Gallons
Otter Creek Water	4.34	per 1,000 gallons

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