

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MONROE COUNTY)	CASE NO.
WATER DISTRICT FOR AN ALTERNATIVE)	2019-00293
RATE ADJUSTMENT)	

ORDER

On August 22, 2019, Monroe County Water District (Monroe District) tendered an application (Application) requesting to adjust its monthly water service rates pursuant to the procedures set forth in 807 KAR 5:076. By letter dated August 27, 2019, the Commission notified Monroe District that its Application was rejected as being deficient. Monroe District corrected its filing deficiencies and the Application was deemed filed as of September 4, 2019. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated September 24, 2019.

Using its pro forma test-year operations, Monroe District determined that it could justify a revenue increase of \$175,996, or 8.54 percent.¹ The rates requested by Monroe District would increase the monthly bill of a typical residential customer using 4,000 gallons per month by \$3.47, from \$40.71 to \$44.18, or approximately 8.52 percent.² With exception to its wholesale water rate, Monroe District proposed to increase its water service rates by approximately 8.52 percent across the board. Monroe District decided not to increase its wholesale rate in this current case. Because Monroe District changed

¹ Application, ARF Form 1 -Attachment RR-DC- September 2011.

² *Id.*, Billing Analysis Attachment.

from a water purchaser to a water producer, it is studying the impact of the revised operations and plans to revise the wholesale rate as well as its retail rates in a future proceeding.

On January 9, 2020, Commission Staff (Staff) issued a report summarizing its findings. By applying the Debt Service Coverage (DSC) Method, as generally accepted by the Commission, Staff found Monroe District's Overall Revenue Requirement to be \$2,862,022. A revenue increase of \$645,100, or 30.55 percent, is necessary to generate the overall revenue requirement Staff determined that Monroe District could justify. Staff further found that an across-the-board increase to the retail water service rate classes is the appropriate means to achieve the increased revenue requirement. Staff applied an across-the-board increase of 30.85 percent to the retail water service rates to produce the required revenue requirement.³

On January 22, 2020, Monroe District filed with the Commission its comments to Staff's Report.⁴ Monroe District accepted Staff's finding that it could justify a \$645,098 increase in revenue from water service for an overall revenue requirement of \$2,862,018. However, Monroe District explained that it believes that a rate increase of 30.55 percent would place a significant hardship on its customers. For this reason, Monroe District amended its Application to request that the rate increase be implemented in a three-year rate phase-in as follows: Phase 1 would be a 10.55 percent increase in 2020; Phase 2

³ Because Monroe District's wholesale revenue of \$20,277 is included in Staff's calculation of the Overall Revenue Requirement, if the 30.55 percent increase is applied across the board to the retail rates, it would only produce additional revenue of \$638,911, \$6,187 less than the \$645,098 Staff found warranted. Staff applied a 30.85 percent increase to the retail water service rates to produce the required revenue increase of \$645,098.

⁴ Letter from Robert Capps, General Manager, Monroe County Water District, to Gwen R. Pinson, Executive Director, Public Service Commission (Jan. 16, 2020).

would be a 10.00 percent increase in 2021; and Phase 3 would be a 10.00 percent increase in 2023. Citing its two-cycle customer billing, the timing of meter readings, and the complexity of its billing software, Monroe District requested that the approved increase in rates be effective and implemented on the first date of a month (i.e., March 1, April 1). Monroe District waived its right to request an informal conference or a formal hearing.

In its February 5, 2020 Order, the Commission ordered Monroe District to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended rates and to submit proof of publication of the notice with the Commission no later than February 28, 2020. On February 25, 2020, Monroe District submitted the requested proof that the customer notice was published on February 13, 2020, in the *Tompkinsville News* newspaper.

BACKGROUND

Monroe District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 3,487 residential and commercial customers located in Monroe County, Kentucky.⁵ Monroe District's last general rate adjustment occurred in 2018.⁶

TEST PERIOD

The calendar year ended December 31, 2018, should be used as the test year to determine the reasonableness of Monroe District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

⁵ *Annual Report of Monroe County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* (2018 Annual Report) at 12 and 49.

⁶ Case No. 2017-00070, *Electronic Application of Monroe County Water District for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Feb. 8, 2018).

SUMMARY OF REVENUE AND EXPENSES

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

	Test Year Actual	Pro Forma Adjustments	Test Year Pro Forma
Operating Revenues	\$ 2,206,358	\$ (20,823)	\$ 2,185,535
Utility Operating Expenses	2,176,843	(113,145)	2,063,698
Net Utility Operating Income	29,515	92,322	121,837
Interest Income	11,225	0	11,225
Nonutility Income	20,160	0	20,160
Net Income Available for Debt Service	<u>\$ 60,900</u>	<u>\$ 92,322</u>	<u>\$ 153,222</u>

REVENUE REQUIREMENT

In its report, Staff determined that Monroe District’s pro forma operations support an increase in revenues from water sales of \$645,098 or 30.55 percent above normalized operating revenues from water sales as shown below:

Pro Forma Operating Expenses	\$ 2,063,698
Plus: Average Annual Debt Principal and Interest Pay	665,267
Debt Coverage Requirement	<u>133,053</u>
Total Revenue Requirement	2,862,018
Less: Other Operating Revenue	(74,105)
Non-operating Income	(20,160)
Interest Income	<u>(11,225)</u>
Revenue Required from Rates	2,756,528
Less: Normalized Revenues from Water Sales	<u>(2,111,430)</u>
Required Revenue Increase/(Decrease)	<u>\$ 645,098</u>
Percentage Increase	<u>30.55%</u>

RATE DESIGN

Monroe District requested in its comments to the Staff Report that the Commission approve a three-year phase-in plan utilizing the revenue requirement calculated by Staff.

If the Commission were to accept Monroe District's proposal, Monroe District would potentially experience a shortfall from retail revenue of approximately \$640,924.⁷ Monroe District has acknowledged that it requires the additional revenues determined reasonable by Staff, and this shortfall resulting from a phase-in approach may result in an impairment to Monroe District's operations. Therefore, the Commission finds that it cannot approve a three-year phase-in plan.

The monthly bill for a typical residential customer using 4,000 gallons will increase from \$40.71 to \$53.28, an increase of \$12.57, or 30.88 percent.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The water service rates proposed by Monroe District should be denied.
3. 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 originally proposed by Monroe District are denied.

⁷ Revenue shortfall in years 1-3 based on Staff's billing analysis provided by Monroe District: Year 1, (424,864), Year 2 (\$216,060), Year 3, \$0. Total shortfall is (\$640,924).

3. The rates set forth in the Appendix to this Order are approved for services rendered by Monroe District on and after April 1, 2020.

4. Within 20 days of the date of entry of this Order, Monroe 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.

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

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By the Commission

ENTERED
MAR 18 2020
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00293 DATED **MAR 18 2020**

The following rates and charges are prescribed for the customers in the area served by Monroe County Water 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.

Water Rates – Effective April 1, 2020

5/8 x 3/4-Inch Meter

First	2,000	Gallons	\$ 28.98	Minimum Bill
Next	3,000	Gallons	12.15	per 1,000 Gallons
Next	5,000	Gallons	10.47	per 1,000 Gallons
All Over	10,000	Gallons	9.20	per 1,000 Gallons

1-Inch Meter

First	5,000	Gallons	\$ 65.41	Minimum Bill
Next	5,000	Gallons	10.47	per 1,000 Gallons
All Over	10,000	Gallons	9.20	per 1,000 Gallons

2-Inch Meters

First	20,000	Gallons	\$ 210.85	Minimum Bill
All Over	20,000	Gallons	9.20	per 1,000 Gallons

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*Robert Capps
Manager
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