

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------------|---|------------|
| APPLICATION OF WEST MCCRACKEN COUNTY |) | |
| WATER DISTRICT FOR APPROVAL OF A |) | |
| PROPOSED INCREASE IN RATES FOR WATER |) | CASE NO. |
| SERVICE, TO INCREASE NON-RECURRING |) | 2006-00542 |
| CHARGES, AND TO REVISE ITS TARIFF |) | |
| ACCORDINGLY |) | |

ORDER

On December 11, 2006, West McCracken County Water District ("West McCracken") submitted an application for Commission approval of: (1) an increase of rates for water service; (2) an adjustment to certain existing non-recurring charges; (3) the creation of new non-recurring charges; (4) the financing and installation of radio read meters; and (5) an amendment to the language in its developer contract that is a part of its tariff. West McCracken's initial filing was found deficient. On March 9, 2007, West McCracken supplemented its initial filing with the deficient information and a request to withdraw the portions of the original application related to financing the installation of radio read meters. The case was then considered filed on March 9, 2007, when all deficiencies were cured.

Upon request, intervention was granted to the Attorney General of the Commonwealth of Kentucky ("Attorney General") by Order dated April 9, 2007.

In its application, and supplement thereto, West McCracken presented pro forma financial information demonstrating that its current rates for water service generate a revenue deficiency of \$158,695. To eliminate a large portion of the deficiency and to

lessen rate shock to its customers West McCracken proposed a three-phase rate increase wherein rates would be increased three times over a two-year period.

Through West McCracken's phase-in plan, rates would first be adjusted so as to produce additional annual revenues of \$77,133. Phase-one rates would be in service for one year after which time phase-two rates would be placed into effect. Phase-two rates would produce additional annual revenues over phase-one rates of \$17,000 and would also be effective for one year after which time phase-three rates would be placed into effect. Phase-three rates would be in effect indefinitely and produce additional annual revenues over phase-two rates of \$23,000. At the end of the two-year, phase-in plan West McCracken will have eliminated \$117,133 of its projected \$158,695 revenue deficiency.

West McCracken's proposed phase-in rate plan would increase the monthly bill of a residential customer using 5,000 gallons per month as follows:

| | <u>Test Year</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> |
|--|------------------|---------------|---------------|---------------|
| Cost of 5,000 gallons to 5/8 inch customer | \$24.74 | \$26.70 | \$27.80 | \$29.20 |
| Increase Over Previous Year | | 1.96 | 1.10 | 1.40 |
| Percentage Increase | | 7.92% | 4.12% | 5.04% |
| Increase Over Test Year | | 1.96 | 3.06 | 4.46 |
| Percentage Increase | | 7.92% | 12.37% | 18.03% |

West McCracken proposed the following adjustments to its schedule of non-recurring charges included in its tariff.

| | <u>Current</u> | <u>Proposed</u> |
|--------------------------------------|----------------|-----------------|
| Tap Fees | | |
| 5/8 Inch | \$480 | \$700 |
| 1 Inch | 583 | Actual Cost |
| 2 Inch and Above | Actual Cost | Actual Cost |
| Customer Request Meter Relocation | - | Actual Cost |
| Reconnect/Disconnect for Non-Payment | 20 | 75 |
| Returned Check Charge | 15 | 20 |

| | | |
|--|----|-----|
| Customer Request Meter Re-Read | 15 | 40 |
| Customer Request Meter Re-Read After Hours | - | 60 |
| Customer Request Meter Test | 25 | 100 |

West McCracken also proposed to add a provision to the developer contract included in its tariff requiring a deposit from developers equal to 10 percent of the costs of the developer's water main costs. The deposit would be held for one year from the date ownership of the main is transferred to West McCracken to warrant the landscaping and backfill on and around the developer-installed water main. The deposit would be refunded after one year less any expenses incurred by West McCracken for re-backfilling and re-landscaping made necessary by ground settling that is not repaired by the developer.

To review West McCracken's application, Commission Staff performed a limited financial review of West McCracken's test-year operations. Staff's findings and recommendations were summarized in a report that was issued by Order dated May 25, 2007. In its report Staff made findings and recommendations on West McCracken's requested water rates, non-recurring charges, and developer contract revision.

Staff found West McCracken's revenue from water rates to be deficient by \$118,423. In keeping with West McCracken's request to minimize rate shock, Staff recommended that the Commission allow West McCracken to phase-in rates to eliminate gradually the revenue deficiency. Staff recommended a three-step, phase-in plan.

Pursuant to Staff's recommended phase-in plan, phase-one and phase-two rates would each be effective for one year after which time phase-three rates would become effective. Phase-one, phase-two, and phase-three rates would generate additional

annual revenues of \$76,294, \$18,824, and \$24,465, respectively. Staff's recommended phase-in plan will eliminate West McCracken's revenue deficiency of \$118,423 entirely.

Staff's recommended rate phase-in plan would increase the monthly bill of a residential customer using 5,000 gallons per month as follows:

| | <u>Test Year</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> |
|--|------------------|---------------|---------------|---------------|
| Cost of 5,000 gallons to 5/8 inch customer | \$24.74 | \$27.24 | \$27.99 | \$28.94 |
| Increase Over Previous Year | | 2.50 | .75 | .95 |
| Percentage Increase | | 10.11% | 2.75% | 3.39% |
| Increase Over Test Year | | 2.50 | 3.25 | 4.20 |
| Percentage Increase | | 10.11% | 13.14% | 16.98% |

Staff recommended all non-recurring charges proposed by West McCracken be accepted by the Commission. Staff further recommended West McCracken be allowed to revise its developer contract to include a deposit to warrant the grading and backfilling on and around water main installations but the deposit amount recommended by Staff was 5 percent of the main's cost, not the 10 percent requested by West McCracken.

The Order issuing the Staff Report granted all parties 10 days to comment or request an informal conference or hearing. To date, no comments or requests have been received.

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

1. The recommendations and findings contained in the Staff Report are supported by the evidence of record, are reasonable, and should be adopted as the findings of the Commission.

2. Phase-one rates for service as shown in Appendix A of this Order will produce additional annual revenue from water sales of \$76,294 and should be made effective for water service provided subsequent to the date of this Order and should be charged for a period of one year.

3. Phase-two rates as shown in Appendix A of this Order will produce additional annual revenues of \$18,824 over phase-one rates and should be made effective for water service provided one year after the date of this Order and should be charged for a period of one year.

4. Phase-three rates as shown in Appendix A of this Order will produce additional annual revenues of \$24,465 over phase-two rates and should be charged for water service provided two years after the date of this Order.

5. The non-recurring charges as shown in Appendix A of this Order are equal to the expenses incurred to provide the associated services.

6. West McCracken should be allowed to include in its developer contract the language as shown in Appendix A of this Order to require a deposit be paid by developers and held by West McCracken for no longer than 12 months for re-grading and re-landscaping areas on and around developer installed mains. The deposit shall be equal to 5 percent of the developer main costs.

Nothing contained in this Order or the Staff Report precludes West McCracken from filing an application for an additional rate adjustment at any time in the future.

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 for water service proposed by West McCracken in its application are denied.

3. The non-recurring charges proposed by West McCracken in its application, recommended by Staff, and shown in Appendix A of this Order are approved for services rendered on and after the date of this Order.

4. The deposit language proposed by West McCracken to be included in its developer contract is denied.

5. Phase-one rates as shown in Appendix A are approved for service rendered by West McCracken on and after the date of this Order.

6. Phase-two rates as shown in Appendix A shall become effective 12 months from the date of this Order.

7. Phase-three rates as shown in Appendix A shall become effective 24 months from the date of this Order.

8. The deposit language to be included in the developer contract as shown in Appendix A is approved for contracts signed on and after the date of this Order.

9. Within 30 days of the date of this Order, West McCracken shall file with the Commission its revised tariff setting out phase-one rates, non-recurring charges, and the developer contract.

10. Thirty days prior to the effective date of phase-two and phase-three rates, West McCracken shall file with the Commission its revised tariff setting out phase-two and phase-three rates. West McCracken shall provide its customers with a one-time notice with the implementation of phase-two and phase-three rates.

11. Nothing contained herein shall preclude West McCracken from filing an application for rate adjustment at any time in the future.

Done at Frankfort, Kentucky, this 22nd day of June, 2007.

By Commission

ATTEST



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00542 DATED JUNE 22, 2007

The following rates and charges are prescribed for the customers in the area served by West McCracken 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

| | Phase 1 | Phase 2 | Phase 3 |
|--|---------|---------|---------|
| <u>Customer Charge</u> | | | |
| 5/8 X 3/4 Inch Connection | \$5.79 | \$5.79 | \$5.79 |
| 1 Inch Connection | 14.47 | 14.47 | 14.47 |
| 2 Inch Connection | 57.88 | 57.88 | 57.88 |
| 3 inch Connection | 86.82 | 86.82 | 86.82 |
| 4 Inch Connection | 144.70 | 144.70 | 144.70 |
| | | | |
| <u>Usage Charge</u> | | | |
| First 100,000 gallons, per 1,000 gallons | \$4.29 | \$4.44 | \$4.63 |
| Over 100,000 gallons, per 1,000 gallons | 2.98 | 3.06 | 3.15 |

Non-Recurring Charges

| | |
|--|-------------|
| Tap Fees | |
| 5/8 Inch | \$700 |
| 1 Inch and above | Actual Cost |
| Customer Request Meter Relocation | Actual Cost |
| Reconnect/Disconnect for Non-Payment | 75 |
| Returned Check Charge | 20 |
| Customer Request Meter Re-Read | 40 |
| Customer Request Meter Re-Read After Hours | 60 |
| Customer Request Meter Test | 100 |

Developer Contract

An advance deposit equal to 5 percent of the estimated water line construction costs made by a developer shall be paid to West McCracken and held for a period not

to exceed one year from the date the water line construction is fully complete and all rights and interest of ownership have transferred to West McCracken. The deposit shall be used by West McCracken to offset all expenses incurred by it for re-grading and re-landscaping made necessary by normal ground settling on and around the water main installation that is not repaired by the developer. *An itemized list of all charges against the deposit, along with the unused portion, shall be provided to the developer within one year from the time West McCracken has accepted ownership of the water main extension.*