

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GALLATIN COUNTY WATER)
DISTRICT FOR THE APPROVAL OF)
INCREASED MONTHLY RATES AND FOR) CASE NO. 2011-00378
APPROVAL OF AN INCREASE IN ITS METER)
CONNECTION FEE)

ORDER

Pursuant to 807 KAR 5:076, Gallatin County Water District ("Gallatin District") has applied for an adjustment of rates for water service. By this Order, the Commission establishes rates that, when fully implemented, will produce additional annual revenues of \$247,211, a 27.70 percent increase over normalized test-period revenues from rates of \$892,606. For a residential customer who consumes 5,000 gallons of water monthly, his or her monthly bill will immediately increase from \$39.72 to \$42.57, or 7.17 percent, and will increase to \$51.42, or 29.42 percent above his or her present monthly bill, on November 1, 2013.

Gallatin District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that produce and distribute water to approximately 1,870 customers in Boone, Gallatin and Grant Counties, Kentucky.¹ This case represents Gallatin District's first application for a general rate adjustment. It brought all of its

¹ *Annual Report of Gallatin County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010* at 5, 27.

previous applications for rate adjustment pursuant to KRS 278.023. Its last rate adjustment occurred in September 2006.²

On September 19, 2011, Gallatin District filed with the Commission its application for an adjustment of its rates for water service. It proposed rates that when fully implemented would produce additional annual revenues of \$247,211, or 27.70 percent increase over normalized test period revenues from rates of \$892,606. It proposed to place its proposed rates into effect in two phases. In the first phase, which it proposed to implement November 1, 2011,³ the proposed rates would allow for recovery of one-half of allowable depreciation expense. In the second and final phase, which Gallatin District proposed to take effect on November 1, 2013, the proposed rates would increase to permit full recovery of allowable depreciation expense. Gallatin District also proposed to adjust its meter connection charge for a 5/8-inch x 3/4-inch meter from \$530 to \$802 and to increase its deposit to reflect the proposed adjustment in rates.

On February 27, 2012, Commission Staff issued a report of its findings regarding the proposed rate and Gallatin District's operations during the test period. It found that, based upon Gallatin District's test-period operations, Gallatin District required total revenues of \$1,158,837 to meet its reasonable operating expenses and provide for reasonable equity growth. It further found that, to reach this level of revenue, Gallatin

² Case No. 2006-00399, *The Application of Gallatin County Water District, Gallatin County, Kentucky, (1) For a Certificate of Public Convenience and Necessity Authorizing Construction of Major Extensions and Additions To Its Existing Municipal Water Distribution System, (2) Seeking Approval of Revised Water Service Rates and Charges, and (3) Seeking Approval of The Issuance of Certain Securities Pursuant to KRS 278.023* (Ky. PSC Sep. 22, 2006).

³ Although Gallatin District proposed to place its proposed rates into effect on November 1, 2011, the Commission found that no action was necessary to suspend the proposed rates as Gallatin District failed to comply with 807 KAR 5:011. No revision to an existing tariff may be made unless in compliance with KRS 278.180 and 807 KAR 5:011, Sections 6 and 9. 807 KAR 5:011, Section 6(4), expressly provides that a modification to an existing tariff sheet may be made by filing a revised tariff sheet in accordance with 807 KAR 5:011. As the proposed tariff sheet revision was unsigned, it did not comply with 807 KAR 5:011, Section 4, and could not take effect.

District required a rate adjustment to generate additional annual revenue of \$249,073 over normalized revenue from rates of \$892,606.

On March 12, 2012, Gallatin District responded to the findings contained in Commission Staff's report. It stated no objections to those findings and further advised that the matter should be submitted to the Commission based upon the existing record. Pursuant to the provisions of the Commission's Order of February 20, 2012, the informal conference and hearing scheduled in this matter were cancelled and this matter stood submitted for decision based upon the existing record.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Except where they contradict or conflict with the findings contained in this Order, the findings contained in Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.

2. The calendar year ending December 31, 2010 should be used as the test period to determine the reasonableness of Gallatin District's existing and proposed rates.

3. Based upon pro forma test-period operations, Gallatin District's pro forma annual revenue is \$909,764.⁴ Approximately \$892,606 of this revenue results from water sales.

⁴ Total Water Revenue (\$892,606) + Interest and Dividend Income (\$10,158) + Nonutility Income (\$7,000) = \$909,764. Total Water Revenue includes forfeited discounts and miscellaneous service revenue.

4. Based upon pro forma test-period operations, Gallatin District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$886,399.⁵

5. Gallatin District's average annual principal and interest payment on its long-term debt for the three-year period from 2012 to 2014 is \$231,532.

6. Given that Gallatin District is a water district, the use of debt service coverage methodology to determine its total revenue requirement is appropriate.

7. The use of a debt service coverage ratio of 1.2x should be used to determine Gallatin District's total revenue requirement.

8. Applying a debt service coverage of 1.2x to Gallatin District's average annual debt service requirement for the period from 2012 to 2014 produces a total revenue requirement of \$1,164,237, or \$254,473 more than Gallatin District's pro forma annual revenues.

9. The proposed Phase-I rates, which Gallatin District proposes to become effective immediately, will produce total annual revenues of \$985,300, will produce a

⁵ This amount includes total annual salaries of \$5,400 for the members of Gallatin District's Board of Commissioners. Following the issuance of the Commission Staff Report, we were advised that Gallatin County Fiscal Court has approved a monthly salary of \$150 for each member of Gallatin District's Board of Commissioners.

positive cash flow of \$211,901,⁶ and will allow Gallatin District to meet its pro forma “cash” expenses and debt service requirements.

10. The proposed Phase-II rates, which Gallatin District proposes to become effective on November 1, 2013, will produce total annual revenues of \$1,156,975, will produce a positive cash flow of \$382,766,⁷ and will allow Gallatin District to meet its pro forma “cash” expenses and debt service requirements.

11. Implementation of the proposed rates is not likely to cause the service that Gallatin District renders to the public to suffer.

12. When a utility has requested rates that are less than a regulatory commission determines “would furnish a fair return then, in the absence of some factor which would in the public interest require that larger rates be charged, the rates requested by the utility ought to be allowed.”⁸

13. Gallatin District’s proposed meter connection charge will not produce revenues in excess of the expenses to provide the service in question and should be approved.

14. 807 KAR 5:006, Section 7(1)(b), permits a utility to establish an equal deposit amount for each class based on the average bill of customers in that class.

⁶ Total Revenue	\$ 985,300
Less: Operating Expenses	886,399
Add: Depreciation and Amortization	<u>343,601</u>
Sub-total	\$ 442,502
Less: Debt Service	<u>231,411</u>
Net Cash Flow	\$ 211,901

⁷ Total Revenue	\$1,156,975
Less: Operating Expenses	886,399
Add: Depreciation and Amortization	<u>343,601</u>
Sub-total	\$ 614,177
Less: Debt Service	<u>231,411</u>
Net Cash Flow	\$ 382,766

⁸ *Utilities Operating Co. v. King*, 143 So.2d 854 (Fla. 1962). If Gallatin District wishes to request rates that will produce the revenue requirement found reasonable, it may petition for rehearing pursuant to KRS 278.400.

Deposit amounts may not exceed two-twelfths of the average bill of customers in the class where bills are rendered monthly.

15. As Gallatin District issues bills monthly, as the proposed deposit is equal to twice the monthly bill of a customer who uses 5,000 gallons of water, and as the average monthly residential customer usage is approximately 5,000 gallons of water, the proposed deposits are consistent with 807 KAR 5:006, Section 7(1)(b).

IT IS THEREFORE ORDERED that:

1. Except where they contradict or conflict with the findings contained in this Order, the findings contained in Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates set forth in Appendix A to this Order are approved for water service that Gallatin District renders on and after the date of this Order.

3. The rates set forth in Appendix B to this Order are approved for water service that Gallatin District renders on and after November 1, 2013.

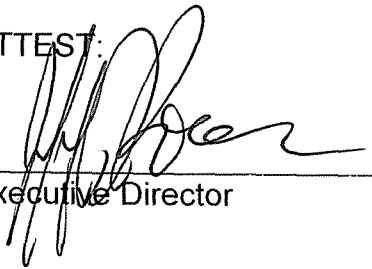
4. Within 20 days of the date of this Order, Gallatin District shall file revised tariff sheets with the Commission setting forth the rates approved in this Order.

5. This matter is closed and shall be removed from the Commission's docket.

By the Commission

ENTERED *PH*
APR 16 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2011-00378

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00378 DATED APR 16 2012

The following rates and charges are prescribed for the customers in the area served by Gallatin 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.

5/8" X 3/4" Meters

First	1,000 Gallons	\$17.65 Minimum Bill
Next	2,000 Gallons	6.50 per 1,000 Gallons
Next	2,000 Gallons	5.96 per 1,000 Gallons
Next	5,000 Gallons	5.62 per 1,000 Gallons
Over	10,000 Gallons	5.30 per 1,000 Gallons

Wholesale Rate \$ 1.46 per 1,000 Gallons

Sales to Kentucky Speedway will be a flat rate equivalent of \$2,917 per month, or a minimum of \$35,000 annually.

5/8-Inch x 3/4-Inch Meter Connection Charge	\$802.00
All Larger Meters Connection Charge	Actual Cost
Deposit	\$85.14

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00378 DATED **APR 16 2012**

The following rates and charges are prescribed for the customers in the area served by Gallatin County Water District for service rendered on and after November 1, 2013. 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.

5/8" X 3/4" Meters

First	1,000 Gallons	\$ 21.00 Minimum Bill
Next	2,000 Gallons	7.75 per 1,000 Gallons
Next	2,000 Gallons	7.44 per 1,000 Gallons
Next	5,000 Gallons	6.70 per 1,000 Gallons
Over	10,000 Gallons	6.20 per 1,000 Gallons

Wholesale Rate \$ 1.46 per 1,000 Gallons

Sales to Kentucky Speedway will be a flat rate equivalent of \$2,917 per month, or a minimum of \$35,000 annually.

5/8-Inch x 3/4-Inch Meter Connection Charge	\$802.00
All Larger Meters Connection Charge	Actual Cost
Deposit	\$102.76

Vic Satchwell
Chairman
Gallatin County Water District
4500 Highway 455
Sparta, KY 41086