

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING FOR BATH COUNTY) CASE NO. 2012-00537
WATER DISTRICT)

ORDER

Bath County Water District (“Bath District”) has applied to adjust its rates for water service. By this Order, the Commission approves rates that will produce annual water sales revenues of \$1,839,104, an increase of \$171,045 or 10.25 percent, over pro forma present rate revenues. Our action will increase the monthly bill of a customer who uses 5,000 gallons of water monthly from \$30.25 to \$33.35, or 10.25 percent.

On December 6, 2012, Bath District applied for a rate adjustment pursuant to 807 KAR 5:076. On February 15, 2013, after reviewing the application and Bath District’s records, Commission Staff issued a report containing its findings and recommendations regarding the proposed rate adjustment. Commission Staff found that Bath District’s proposed rates would generate additional revenues of \$ 75,558 over pro forma test-year revenues.¹ It further found that, using the approach that the Commission has historically employed to determine a water district’s revenue requirements, Bath District’s financial condition would support a revenue requirement from water sales of \$1,839,104 and, therefore, a revenue increase of \$171,045.² Commission Staff also recommended that the Commission direct Bath District to revise its method for

¹ Staff Report at 2.

² *Id.* at 4, 6.

calculating and recording depreciation expense for accounting and ratemaking purposes.³

In response to this report, Bath District advised the Commission that it accepted Commission Staff's findings regarding the need for a higher revenue requirement and the rates that Commission Staff found would generate the higher revenue requirement. Bath District further waived its right to a hearing on its application and requested that the matter be submitted for decision based upon the existing record.⁴ On March 5, 2013, the Commission closed the record and submitted the matter for decision.

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

1. Bath District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 3,688 customers in Bath, Menifee, Montgomery, and Rowan counties, Kentucky.⁵

2. The calendar year ending December 31, 2011 should be used as the test year to determine the reasonableness of Bath District's existing and proposed rates.⁶

3. Based upon pro forma test-year operations, Bath District's total pro forma revenue is \$1,743,880.⁷

³ *Id.* at 18-19.

⁴ Letter from Kenneth Barber, Co-Manager, Bath County Water District, to Jeff Derouen, Executive Director, Public Service Commission (Feb. 26, 2013).

⁵ *Annual Report of Bath County Water District to the Public Service Commission of Kentucky for the Calendar Year Ending December 31, 2011 ("Annual Report")* at 5, 27.

⁶ 807 KAR 5:076, Section 8.

⁷ Staff Report at 10. \$1,668,059 (Water Sales) + \$52,910 (Other Operating Revenue) + \$8,073 (Interest Income) + \$14,838 (Nonutility Income) = \$1,743,880.

4. Based upon pro forma test-year operations, Bath District's total pro forma operating expenses, after adjusting for known and measurable changes, is \$1,723,677.⁸

5. The statement of Bath District's test-period operations, as adjusted for known and measurable changes, is set forth in Appendix A of this Order.

6. Bath District presently uses service lives for four classes of assets that are at variance⁹ with those found in a survey of the National Association of Regulatory Utility Commissioners ("NARUC") that contained "a range of average service lives currently being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice."¹⁰

7. The Commission has previously used the same survey to establish the service lives of utility assets.¹¹

8. The record contains no evidence that the service lives that Bath District uses are based upon a depreciation study or its own historic plant records.

9. Bath District's assignment of service lives for these four classes of assets is not reasonable for ratemaking purposes and revisions in these assignments should be made for ratemaking and accounting purposes.¹²

10. Appendix B to this Order sets forth the classes of assets whose service lives should be adjusted, the previously assigned service life of each class, the service

⁸ *Id.*

⁹ *Id.* Attachment C.

¹⁰ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 10.

¹¹ See Case No. 2012-00390, *Application of Crittenden-Livingston Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 20, 2012); at 4, n. 10.

¹² Based upon these reassignments, we find that Bath District's test-period depreciation expense should be reduced by \$2,874.

life range that the NARUC survey suggests for each class, and the assigned service life that should be used for ratemaking and accounting purposes for all future reporting periods.

11. As of December 31, 2011, Bath District had outstanding bonds in the principal amount of \$3,365,000, which will mature between 2017 and 2049.¹³

12. The three-year average of Bath District's principal and interest payments on its existing long-term debt is \$159,373.¹⁴

13. The Commission has historically used the Debt Service Coverage Methodology to calculate the revenue requirements of water districts with long-term bonded debt.

14. Applying the Debt Service Coverage Methodology to Bath District's pro forma operations results in a total revenue requirement from all revenue sources of \$1,914,925,¹⁵ and an increase to water sales revenues of \$171,145.¹⁶

15. Based upon pro forma test-year sales, Bath District's proposed rates will not produce annual revenues from water sales of \$1,839,104 or permit Bath District to obtain total annual revenues of \$1,914,925.

¹³ *Annual Report* at 23.

¹⁴ Staff Report at 6.

¹⁵ Total required revenue from water sales is \$1,839,104. *Id.* at 6.

¹⁶ *Id.* (\$1,839,104 - \$1,668,059 = \$171,145.) See *supra* note 7 and accompanying text.

16. In the absence of a cost-of-service study to allocate costs, the most equitable means to establish rates to produce the revenue requirement is to allocate the required revenue increase evenly among all usage blocks.¹⁷

17. The rates set forth in Appendix C to this Order allocate the required revenue increase evenly among all usage blocks. Based upon pro forma test-year sales, they will produce revenues from water sales of \$1,839,104 and will permit Bath District to obtain total revenues of \$1,914,925.

18. The rates set forth in Appendix C are fair, just, and reasonable and should be charged by Bath District for service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

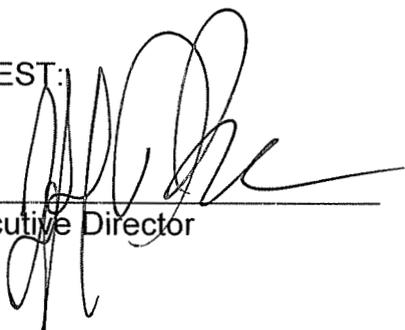
1. Bath District shall, for accounting and ratemaking purposes, use the "PSC Approved Service Life" set forth in Appendix B to this Order for the listed classes of assets when calculating and reporting depreciation for all reporting periods after the date of this Order, but shall make no retroactive adjustment to its books to account for the cumulative effect of this change in accounting estimate.
2. Bath District's proposed rates are denied.
3. Bath District shall charge the rates set forth in Appendix C to this Order for water service rendered on and after the date of this Order.
4. Within 20 days of the date of this Order and using the Commission's Electronic Tariff Filing System, Bath District shall file with the Commission revised tariff sheets that contain the rates set forth in Appendix C.

¹⁷ The revenue increase allocated to the city of Owingsville was assigned entirely to the volumetric rate assessed to the city. The fixed portion of the wholesale rate, which is set forth as a flat monthly fee in the water purchase contract between the city of Owingsville and Bath District, has not been adjusted.

By the Commission

ENTERED
MAY 17 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2012-00537

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00537 DATED **MAY 17 2013**

Bath County Water District's Adjusted Operating Statement

Operating Revenue	
Water Sales	\$1,668,059
Other Water Revenues:	<u>52,910</u>
Total Operating Revenues	<u>1,720,969</u>
Operating Expenses	
Operation and Maintenance Expense:	
Salaries and Wages - Employees	283,830
Salaries and Wages - Officers	20,510
Employee Pensions and Benefits	154,796
Purchased Water	695,507
Purchased Power	60,925
Chemicals	7,096
Materials and Supplies	26,569
Contractual Services	4,750
Water Testing	7,665
Transportation	24,858
Insurance	19,330
Regulatory Commission Expense	2,514
Bad Debt Expense	6,539
Miscellaneous Expenses	<u>44,046</u>
Total Operation and Maintenance Expenses	1,358,936
Depreciation Expense	342,535
Taxes Other than Income	<u>22,207</u>
Total Operating Expenses	<u>1,723,677</u>
Net Operating Income	(2,708)
Interest and Dividend Income	8,073
Nonutility Income	<u>14,838</u>
Income Available to Service Debt	<u>\$ 20,203</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00537 DATED **MAY 17 2013**

Proposed Modifications to the Service Lives of
Certain Assets of Bath County Water District

Asset Class	NARUC Range	Previous Assigned Service Life	PSC Approved Service Life
Water Treatment Plant Equipment	20 - 35 years	5 years	27.5 years
Other Plant and Miscellaneous Equipment	35 - 40 years	50 years	37.5 years
Transportation Equipment	7 years	5 years	7 years
Tools and Shop Equipment	15 - 20 years	10 years	17.5 years

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00537 DATED **MAY 17 2013**

The following rates and charges are prescribed for the customers in the area served by Bath County Water District for service rendered on and after the date of this Order. 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

5/8-Inch x 3/4-Inch Meter

First	2,000 gallons	\$15.56	Minimum bill
Next	3,000 gallons	5.93	per 1,000 gallons
Next	5,000 gallons	4.50	per 1,000 gallons
Next	10,000 gallons	3.84	per 1,000 gallons
Next	30,000 gallons	3.62	per 1,000 gallons
Over	50,000 gallons	3.50	per 1,000 gallons

1-Inch Meter

First	10,000 gallons	\$55.85	Minimum bill
Next	10,000 gallons	3.84	per 1,000 gallons
Next	30,000 gallons	3.62	per 1,000 gallons
Over	50,000 gallons	3.50	per 1,000 gallons

2-Inch Meter

First	50,000 gallons	\$202.85	Minimum bill
Over	50,000 gallons	3.50	per 1,000 gallons

Wholesale

Sharpsburg Water District	\$3.21	per 1,000 gallons
City of Frenchburg	\$2.76	per 1,000 gallons
City of Owingsville (Minimum Charge)	\$4,733.91	per month
City of Owingsville (Volumetric Charge)	\$2.35	per 1,000 gallons
Bulk Sales	\$8.29	per 1,000 gallons
Leak Adjustment	\$2.73	per 1,000 gallons

Kenny Barber
Co-Manager
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