

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST PENDLETON COUNTY     )  
WATER DISTRICT FOR AN ALTERNATIVE RATE    ) CASE NO. 2013-00103  
ADJUSTMENT DISTRICT                            )

ORDER

East Pendleton County Water District ("East Pendleton 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 \$1,068,344, an increase of \$210,459 or 24.53 percent, over pro forma present rate revenues. Our action will increase the monthly bill of a residential customer who uses 5,000 gallons of water monthly from \$43.79 to \$55.74, or 27.29 percent.

On May 13, 2013, East Pendleton District applied for a rate adjustment pursuant to 807 KAR 5:076.<sup>1</sup> On June 28, 2013, after reviewing the application and East Pendleton District's records, Commission Staff issued a report containing its findings regarding the proposed rate adjustment. Commission Staff found that East Pendleton District's proposed rates would generate additional revenues of \$154,804 over pro forma test-year revenues.<sup>2</sup> It further found that, using the approach that the Commission has historically employed to determine a water district's revenue requirements, East Pendleton District's financial condition would support a revenue

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<sup>1</sup> East Pendleton District tendered its application for rate adjustment to the Commission on March 14, 2013. This application failed to comply with 807 KAR 5:076, Section 4. On May 13, 2013, the Commission on its motion granted a deviation from certain requirements of 807 KAR 5:076, Section 4, and accepted the application for filing.

<sup>2</sup> Staff Report at 1.

requirement from water sales of \$1,068,344 and, therefore, a revenue increase of \$210,456.<sup>3</sup> Commission Staff also recommended that the Commission direct East Pendleton District to revise its method for calculating and recording depreciation expense for accounting and ratemaking purposes and to revise its methods of allocating shared transactions between its water and sewer divisions.<sup>4</sup>

In response to this report, East Pendleton 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.<sup>5</sup> It further advised of its actions in response to Commission Staff's findings regarding East Pendleton District's internal controls and its agreement with Commission Staff's findings regarding the adjustment of the depreciable lives of certain assets.

On August 1, 2013, the Commission directed East Pendleton District to publish in a newspaper of general circulation in its territory notice of the Commission Staff's recommended rates and East Pendleton District's request that those rates be approved. East Pendleton District caused this notice to be published on August 6, 2013.<sup>6</sup> On September 15, 2013, having received no comments on East Pendleton District's request nor requests for intervention in this proceeding, the Commission closed the record and submitted the matter for decision.

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<sup>3</sup> *Id.* at 19.

<sup>4</sup> *Id.* at 18-19.

<sup>5</sup> Letter from Wayne Lonaker, Manager, East Pendleton County Water District to Public Service Commission (July 10, 2013).

<sup>6</sup> Letter from Wayne Lonaker, Manager, East Pendleton County Water District to Jeff Derouen, Executive Director, Public Service Commission (Aug. 7, 2013).

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

1. East Pendleton District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 2,083 customers in Bracken, Campbell, Pendleton, and Harrison counties, Kentucky.<sup>7</sup> It also owns sewage treatment and collection facilities that provide sewage service to 50 customers in Pendleton County, Kentucky.<sup>8</sup>

2. The calendar year ending December 31, 2012, should be used as the test year to determine the reasonableness of East Pendleton District's existing and proposed rates.<sup>9</sup>

3. Based upon pro forma test-year operations, East Pendleton District's total pro forma revenue is \$886,088.<sup>10</sup>

4. Based upon pro forma test-year operations, East Pendleton District's total pro forma operating expenses, after adjusting for known and measurable changes, is \$925,696.<sup>11</sup>

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

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<sup>7</sup> *Annual Report of East Pendleton County Water District to the Public Service Commission of Kentucky for the Calendar Year Ending December 31, 2012* (Water Division) ("Water Annual Report") at 5, 27.

<sup>8</sup> *Annual Report of East Pendleton County Water District to the Public Service Commission of Kentucky for the Calendar Year Ending December 31, 2012* (Sewer Division) at 8; Kentucky Infrastructure Authority, *Kentucky Wastewater Management Plan* 639-642 (Apr. 2013).

<sup>9</sup> 807 KAR 5:076, Section 8.

<sup>10</sup> Staff Report at 7. \$857,885 (Water Sales) + \$25,468 (Other Operating Income) + \$2,449 (Interest and Dividend Income) + \$286 (Gain on Disposition of Property) = \$886,088.

<sup>11</sup> *Id.* \$914,634 (Operation, Maintenance, and Depreciation Expenses) + \$9,545 (Amortization Expense) + \$1,517 (PSC Fee) = \$925,696.

6. East Pendleton District presently uses service lives for two classes of assets that are at variance<sup>12</sup> 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.”<sup>13</sup>

7. The Commission has previously used the same survey to establish the service lives of utility assets.<sup>14</sup>

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

9. East Pendleton District’s assignment of service lives for these two classes of assets is not reasonable for ratemaking purposes and revisions in these assignments should be made for ratemaking and accounting purposes.<sup>15</sup>

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 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.

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<sup>12</sup> *Id.* Attachment C.

<sup>13</sup> National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 10.

<sup>14</sup> See, e.g., 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.

<sup>15</sup> These reassignments require a reduction of \$43,915 in East Pendleton District’s test-period depreciation expense. Staff Report at 12-13.

11. As of December 31, 2012, East Pendleton District had outstanding long-term debt in the principal amount of \$1,363,100.<sup>16</sup> These debts and its outstanding principal amounts are set forth in Table 1.

<b>TABLE 1</b>		
<b>Debt</b>	<b>Date of Issuance</b>	<b>Outstanding Principal Amount</b>
Refunding Revenue Bond, Series 1998	08/01/1998	\$625,000
Kentucky Infrastructure Authority	04/28/1998	52,500
Rural Development Bond	04/10/2002	416,000
Rural Development Bond	02/22/2007	178,200
Rural Development Bond	02/22/2007	91,400

12. In addition to the long-term debt listed in Table 1, East Pendleton District has executed an assistance agreement with Kentucky Infrastructure Authority (“KIA”) to borrow \$160,000, which will be used to paint an elevated water storage facility.<sup>17</sup> Debt service payments on this loan are known and measureable events that should be reflected in the calculation of East Pendleton District’s annual debt service.

13. The three-year average of East Pendleton District’s principal and interest payments on its existing long-term debt and its recent KIA loan is \$138,017.<sup>18</sup>

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

<sup>16</sup> *Water Annual Report* at 9. See also Ray, Foley, Hensley & Co., PLLC, *East Pendleton County Water District Financial Statements (“Financial Statements”)* (Mar. 21, 2013) at 9, available at <http://psc.ky.gov/Audit/Audit/Water%5C2012%5CEast%20Pendleton%20County%20Water%20District%202013-04-01.pdf> (last visited Oct. 15, 2013).

<sup>17</sup> Case No. 2012-00505, *Application of East Pendleton County Water District for Authority to Enter Into a Loan Agreement with the Kentucky Infrastructure Authority* (Ky. PSC Jan. 7, 2013).

<sup>18</sup> Staff Report at 19. Commission Staff’s calculation of East Pendleton District’s debt service payments varies slightly from that determined by East Pendleton District’s auditors. *Financial Statements* at 10.

15. Applying the Debt Service Coverage Methodology to East Pendleton District's pro forma operations results in a total revenue requirement from all revenue sources of \$1,096,547,<sup>19</sup> and an increase to water sales revenues of \$210,459.<sup>20</sup>

16. Based upon pro forma test-year sales, East Pendleton District's proposed rates will not produce annual revenues from water sales of \$1,068,344 or permit East Pendleton District to obtain total annual revenues of \$1,096,547.

17. Based upon pro forma test-year sales, the rates set forth in Appendix C to this Order will produce revenues from water sales of \$1,068,344 and will permit East Pendleton District to obtain total revenues of \$1,096,547.

18. The rates set forth in Appendix C are based upon a declining block rate design and more accurately reflect the differing demand ratios of the various meter sizes.

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

20. In its financial and statistical reports for its water and sewer operations for the year ending December 31, 2012, East Pendleton District failed to allocate shared transactions between its water and sewer divisions, but instead assigns the total expense or revenue to its water division. The failure to properly allocate such transactions results in the inaccurate reporting of East Pendleton District's financial condition.

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<sup>19</sup> Total required revenue from water sales is \$1,068,344. Staff Report at 19.

<sup>20</sup> *Id.* (\$1,068,344 - \$857,885 = \$210,459.) See *supra* note 10 and accompanying text.

21. East Pendleton District should revise its accounting procedures and internal controls to reasonably and fairly assign and allocate shared transactions between its water and sewer divisions.

IT IS THEREFORE ORDERED that:

1. East Pendleton 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. East Pendleton District's proposed rates are denied.

3. East Pendleton District shall charge the rates set forth in Appendix C to this Order for water service rendered on and after November 16, 2013.<sup>21</sup>

4. Within 20 days of the date of this Order and using the Commission's Electronic Tariff Filing System, East Pendleton District shall file with the Commission revised tariff sheets that contain the rates set forth in Appendix C.

5. Within 90 days of the date of this Order, East Pendleton District shall revise its accounting procedures and internal controls to include methods and practices that reasonably and fairly allocate revenues and expenses between its water and sewer divisions and shall file with the Commission a copy of these revised procedures and controls and evidence of its Board of Commissioners' formal adoption of such procedures.

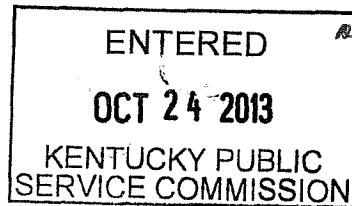
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<sup>21</sup> East Pendleton District requested that any rate adjustment be effective on the sixteenth of the month to coincide with its meter reading schedule. Letter of Wayne Lonaker to Public Service Commission (Mar. 13, 2013).

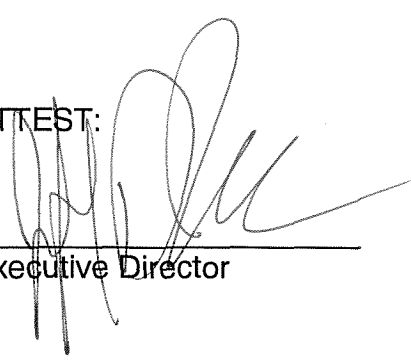
6. Any documents filed pursuant to ordering paragraph 5 shall reference this case number and shall be retained in the utility's general correspondence file.

7. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon East Pendleton District's showing of good cause for such extension.

By the Commission



ATTEST:

  
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Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00103 DATED **OCT 24 2013**

East Pendleton County Water District's Adjusted Operating Statement

Operating Revenue	
Water Sales	\$857,885
Other Water Revenue	<u>25,468</u>
Total Operating Revenue	<u>\$883,353</u>
Operating Expenses	
Field Operating Expenses:	
Employee Wages, Benefits, and Payroll Taxes	\$263,629
Purchased Water	217,013
Purchased Power	28,705
Chemicals	228
Materials and Supplies	14,139
Transportation	20,558
Insurance – General Liability	12,787
Water Testing	1,290
Depreciation Expense	127,540
Administrative Operating Expenses	
Employee Wages, Benefits, and Payroll Taxes	\$164,503
Salaries and Wages - Officers	14,062
Office Utilities	3,534
Materials and Supplies	1,417
Contractual Services	18,423
Miscellaneous Expenses	23,932
Depreciation Expense	<u>2,875</u>
Total Operation and Maintenance Expenses	\$914,634
Amortization Expense	9,545
PSC Fee	<u>1,517</u>
Total Operating Expenses	<u>\$925,696</u>
Net Operating Income	(42,343)
Interest and Dividend Income	2,449
Nonutility Income	<u>286</u>
Income Available to Service Debt	<u>\$ (39,608)</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00103 DATED **OCT 24 2013**

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

<b>Asset Class</b>	<b>East Pendleton District Acct. No.</b>	<b>USoA Acct No.</b>	<b>NARUC Range</b>	<b>Previous Assigned Service Life</b>	<b>PSC Approved Service Life</b>
Transmission Mains	343	331	50 - 75 years	40 - 50 years	62.5 years
Communications Equipment	397	346	10 years	7 years	10 years
Distribution Mains	390	331	50 - 75 years	50 years	62.5 years

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00103 DATED **OCT 24 2013**

The following rates and charges are prescribed for the customers in the area served by East Pendleton County Water District for service rendered on and after November 16, 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.

Monthly Water Rates

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

First	1,000 gallons	\$18.42	Minimum bill
Next	99,000 gallons	9.33	per 1,000 gallons
Over	100,000 gallons	7.11	per 1,000 gallons

1 1/4-Inch Meter

First	10,000 gallons	\$102.39	Minimum bill
Next	90,000 gallons	9.33	per 1,000 gallons
Over	100,000 gallons	7.11	per 1,000 gallons

2-Inch Meter

First	20,000 gallons	\$195.69	Minimum bill
Next	80,000 gallons	9.33	per 1,000 gallons
Over	100,000 gallons	7.11	per 1,000 gallons

3-Inch Meter

First	30,000 gallons	\$288.99	Minimum bill
Next	70,000 gallons	9.33	per 1,000 gallons
Over	100,000 gallons	7.11	per 1,000 gallons

Wayne Lonaker  
Manager  
East Pendleton Water District  
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