

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF )            CASE NO.  
SOUTH HOPKINS WATER DISTRICT            )            2013-00428

ORDER

On January 2, 2014,<sup>1</sup> the Commission accepted South Hopkins Water District's ("South Hopkins") application filed pursuant to 807 KAR 5:076 requesting to adjust its retail rates for water service. By this Order, the Commission approves an increase in retail rates that will produce annual retail water sales revenues of \$1,097,011, an increase of \$65,142,<sup>2</sup> or 6.313 percent, over pro forma present rate revenues from retail water sales of \$1,031,869.<sup>3</sup> Our action will increase the monthly bill of a retail customer who uses 5,000 gallons of water monthly from \$29.17 to \$31.00, or 6.27 percent.<sup>4</sup>

South Hopkins did not request to increase its wholesale rates which are adjusted annually pursuant to a formula that is included in the wholesale contract agreements. South Hopkins relies on the mechanism located in the water purchase contract to determine the wholesale rate annually. Any increase or decrease in its wholesale water rate should be determined by the formula located in the contracts.

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<sup>1</sup> South Hopkins tendered the application on December 6, 2013, but did not file ARF Form 3, Notice of Disclosure, until January 2, 2014.

<sup>2</sup> Staff Report, pg. 4.

<sup>3</sup> *Id.* at 2.

<sup>4</sup> *Id.* at 4.

On April 2, 2014, after reviewing the application and South Hopkins's records, Commission Staff issued a report containing its findings regarding the proposed rate adjustment. Commission Staff found that South Hopkins's proposed retail rates would generate additional revenues of \$37,560 over pro forma test-year revenues.<sup>5</sup> It further found that, using the approach that the Commission has historically employed to determine a water district's revenue requirements,<sup>6</sup> South Hopkins's financial condition would support a revenue requirement from water sales of \$1,326,474.<sup>7</sup> Commission Staff also recommended that the Commission direct South Hopkins to revise its method for calculating and recording depreciation expense for accounting and ratemaking purposes.<sup>8</sup>

In response to this report, South Hopkins 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. South Hopkins further waived its rights to a hearing on its application and requested that the matter be submitted for decision based upon the existing record.<sup>9</sup>

On April 18, 2014, the Commission directed South Hopkins to publish in a newspaper of general circulation in its territory notice of its revised request for rate

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<sup>5</sup> *Id.* at 2.

<sup>6</sup> When calculating the revenue requirements, the Commission looks at revenues and expenses for both wholesale and retail sales.

<sup>7</sup> Staff Report at 21.

<sup>8</sup> *Id.* at 17-19.

<sup>9</sup> Letter from Robert J. Tucker, Chairman, South Hopkins Water District, to Jeff Derouen, Executive Director, Public Service Commission (April 14, 2014).

adjustment. South Hopkins caused this notice to be published on April 19, 2014. On May 21, 2014, having received no comments on South Hopkins's request nor any requests for intervention in this proceeding, the Commission, pursuant to our Order of April 18, 2014, 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. South Hopkins, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 3,004 retail customers in Caldwell and Hopkins counties, Kentucky.<sup>10</sup> It also provides contracted wholesale water service to Caldwell County Water District and the cities of Morton's Gap and Earlington.<sup>11</sup>

2. The calendar year ending December 31, 2012, should be used as the test year to determine the reasonableness of South Hopkins's existing and proposed rates.<sup>12</sup>

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<sup>10</sup> Annual Report of South Hopkins to the Public Service Commission for the Calendar Year Ending December 31, 2012 ("Annual Report") at 12 and 51.

<sup>11</sup> *Id.* at 59.

<sup>12</sup> 807 KAR 5:076, Section 9.

3. Based upon pro forma test-year operations, South Hopkins’s total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable changes, are \$1,298,881 and \$1,326,846, respectively.<sup>13</sup>

4. South Hopkins presently uses service lives for six classes of assets that are at variance 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>14</sup>

5. The Commission has previously used the same survey to establish the service lives of utility assets.<sup>15</sup>

<sup>13</sup> Derived from Staff Report at 6.

|  |                                |
|--|--------------------------------|
| Revenues and Income                          |                                |
| Pro Forma Present Rate Retail Water Sales    | \$ 1,031,869                   |
| Pro Forma Present Rate Wholesale Water Sales | 215,842                        |
| Other Operating Income                       | 46,887                         |
| Interest Income                              | <u>4,283</u>                   |
| <br>Total                                    | <br><u><u>\$ 1,298,881</u></u> |
| <br>Operating Expenses                       |                                |
| Operation and Maintenance Expenses           | \$ 1,213,725                   |
| Depreciation Expense                         | 85,337                         |
| Taxes Other Than Income                      | <u>27,783</u>                  |
| <br>Total                                    | <br><u><u>\$ 1,326,846</u></u> |

<sup>14</sup> National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 10.

<sup>15</sup> 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.

6. The record contains no evidence that the service lives that South Hopkins uses are based upon a depreciation study or its own historic plant records.

7. South Hopkins's assignment of service lives for these six classes of assets is not reasonable for ratemaking purposes, and revisions in these assignments should be made for ratemaking and accounting purposes.

8. Appendix A 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.

9. In its report, Staff determined that adjustments are necessary to the depreciable lives assigned to Structures and Improvements; Electric Pumping Equipment; Transportation Equipment; Tools, Shop, and Garage Equipment; Power Operated Equipment; and Communication Equipment to comply with the NARUC Study.<sup>16</sup> The lives assigned by Staff should be used by South Hopkins for accounting purposes in all future reporting periods.

10. As of December 31, 2012, South Hopkins had outstanding bonds in the principal amount of \$1,115,000.<sup>17</sup>

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<sup>16</sup> Staff Report, Appendix B.

<sup>17</sup> Annual Report at 44.

11. The three-year average principal and interest payments for the years 2013 through 2015 on all United States Department of Agriculture Rural Development bonds are \$42,332.<sup>18</sup>

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

13. Applying the Debt Service Coverage Methodology to South Hopkins's pro forma operations results in a total revenue requirement from all revenue sources of \$1,377,644 and an increase to total water sales revenue of \$78,763, or 6.313 percent.<sup>19</sup>

14. Based upon pro forma test-year sales, South Hopkins's proposed rate increase of 3.63 percent will not produce annual revenues from total water sales of \$1,326,474 or permit South Hopkins to obtain total annual revenues of \$1,377,644.

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<sup>18</sup> Staff Report at 21.

<sup>19</sup> Staff Report at 21.

|   |                    |
|---|--------------------|
| Pro Forma Operating Expenses                              | 1,326,846          |
| Plus: Average Annual Debt Principal and Interest Payments | 42,332             |
| Additional Cash Working Capital                           | <u>8,466</u>       |
| Overall Revenue Requirement                               | 1,377,644          |
| Less: Other Operating Revenues                            | (46,887)           |
| Interest Income   | <u>(4,283)</u>     |
| Revenue Required from Rates                               | 1,326,474          |
| Less: Pro Forma Present Rate Revenue                      | <u>(1,247,711)</u> |
| Required Revenue Increase                                 | <u>78,763</u>      |
| Percentage Increase                                       | <u>6.313%</u>      |

15. South Hopkins's adoption of Commission Staff's finding of a 6.313 percent retail rate increase will produce annual revenues from retail water sales of \$1,097,011, an increase of \$65,142.<sup>20</sup>

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. The rates set forth in Appendix B are fair, just, and reasonable and should be charged by South Hopkins for service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. The rates South Hopkins proposed in its application are denied.
2. South Hopkins shall charge the rates set forth in Appendix B to this Order for water service rendered on and after the date of this Order.
3. Within 20 days of the date of this Order, South Hopkins shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix B of this Order.
4. In all future reporting periods, South Hopkins shall use the "PSC Approved Service Life" set forth in Appendix A to this Order for the listed classes of assets when calculating and reporting depreciation for all reporting periods after the date of this Order. No retroactive adjustment to accumulated depreciation or retained earnings to account for this change in accounting estimate shall be made.

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<sup>20</sup> Staff found that South Hopkins could justify an increase in annual revenues of \$78,763; however, recognizing that South Hopkins's wholesale rates are adjusted annually pursuant to a formula that is included in wholesale contract agreements, Staff recommended that only retail rates be adjusted in this proceeding.

By the Commission

ENTERED

JUN 12 2014

KENTUCKY PUBLIC  
SERVICE COMMISSION



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00428 DATED JUN 12 2014

Proposed Modifications to the Service Lives of  
Certain Assets of South Hopkins Water District

| <b>Asset Classification</b>  | <b>NARUC Range</b> | <b>Previous Assigned Service Life</b> | <b>PSC Approved Service Life</b> |
|--|--------------------|---------------------------------------|----------------------------------|
| Group # 1: Structures & Improvements (office bldg., storage bldg., new pumphouse, and pumpstation) | 35-40              | 20                                    | 37.5                             |
| Group # 2: Electric Pumping Equipment  | 20                 | 5, 15, 29, and 40                     | 20                               |
| Group # 9: Transportation Equipment  | 7                  | 5                                     | 7                                |
| Group #10: Tools, Shop, & Garage Eqp.  | 15-20              | 3-10                                  | 17.5                             |
| Group # 12: Power Operated Equipment   | 10-15              | 3-10                                  | 12.5                             |
| Group # 13: Communication Equipment  | 10                 | 5-10                                  | 10                               |

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2013-00428 DATED **JUN 12 2014**

The following rates and charges are prescribed for the customers in the area served by South Hopkins 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 Rates

##### 5/8-Inch X 3/4-Inch Meter

|          |        |         |          |                   |
|----------|--------|---------|----------|-------------------|
| First    | 1,000  | Gallons | \$ 10.00 | Minimum Bill      |
| Next     | 9,000  | Gallons | 5.25     | per 1,000 Gallons |
| Next     | 10,000 | Gallons | 4.87     | per 1,000 Gallons |
| Next     | 30,000 | Gallons | 4.49     | per 1,000 Gallons |
| All Over | 50,000 | Gallons | 3.77     | per 1,000 Gallons |

##### 1-Inch Meter

|          |        |         |          |                   |
|----------|--------|---------|----------|-------------------|
| First    | 10,000 | Gallons | \$ 57.28 | Minimum Bill      |
| Next     | 10,000 | Gallons | 4.87     | per 1,000 Gallons |
| Next     | 30,000 | Gallons | 4.49     | per 1,000 Gallons |
| All Over | 50,000 | Gallons | 3.77     | per 1,000 Gallons |

##### 2-Inch Meter

|          |        |         |           |                   |
|----------|--------|---------|-----------|-------------------|
| First    | 20,000 | Gallons | \$ 105.96 | Minimum Bill      |
| Next     | 30,000 | Gallons | 4.49      | per 1,000 Gallons |
| All Over | 50,000 | Gallons | 3.77      | per 1,000 Gallons |

##### 3-Inch Meter

|          |        |         |           |                   |
|----------|--------|---------|-----------|-------------------|
| First    | 50,000 | Gallons | \$ 240.41 | Minimum Bill      |
| All Over | 50,000 | Gallons | 3.77      | per 1,000 Gallons |

Robert J Tucker  
Chairman  
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